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Global Economics | North America

Global Trade Monitor: Staying Subdued

Deflation in Chinese export prices continues to drive a decline in value of global trade, while trade volumes remain flat. Red Sea disruptions are likely to have limited macroeconomic effects as long as they remain transitory.

- We expect moderation in global growth to around 3%Y for 2023 and 2024, after recording 3.5%Y in 2022.
- In Nov-23, the latest data available, global goods exports were flat YoY in value terms, but the strong deflation in global export prices has meant contraction in volume terms. Global services growth remained resilient.
- Global export prices remain deflationary at -2.7%Y in November, and have averaged -4.4%Y over the course of 2023. Chinese export prices remain deeply deflationary at -9.8%Y.
- We do not expect ongoing disruptions in the Red Sea will have a material macroeconomic impact as long as they remain transitory in nature. Europe is more exposed than the US, but it will take persistent supply chain disruptions and increased delivery times to affect our outlooks for inflation and growth.
- We take a closer look at the differences in the published statistics on US and China trade data: the US Census data records a much smaller increase in Chinese imports to the US than the Customs data of the China General Administration.
- The MSSCI, Morgan Stanley's measure of supply chain disruptions increased only modestly in December, and preliminary readings suggest another small increase in January. MSSCI components have exhibited stress directionally, but the magnitude of these stresses remains muted, especially compared to previous disruptions.

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The Oil Manual: Suez Canal – Key Stats

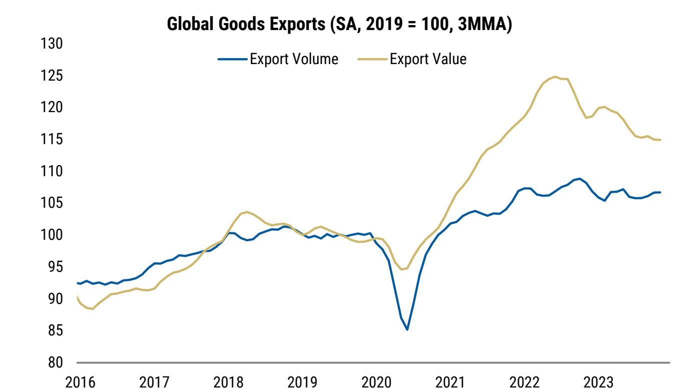
Global Trade Remains Subdued

Value of global trade has declined, driven by deflation in Chinese export prices. Trends in value of goods and services exports have diverged, with value of service exports increasing in 3Q23. Oil prices have moderated.

We expect global growth to stay moderate in 2024 and 2025 at around 3% from 3.1% in 2023 and 3.5% in 2022. The "soft landing" forecast for the US remains intact, and we expect the euro area and the UK to see growth stabilize and improve in the second half of the year, recovering from near 0% growth in recent quarters. The deflation, debt, and ageing workforce headwinds continue to weigh on growth in China and we forecast a modest 4.2% growth rate in 2024. Growth in EMs (4.0%), led by Asia (4.6%), is expected to outperform DMs (1.4%) over the course of 2024.

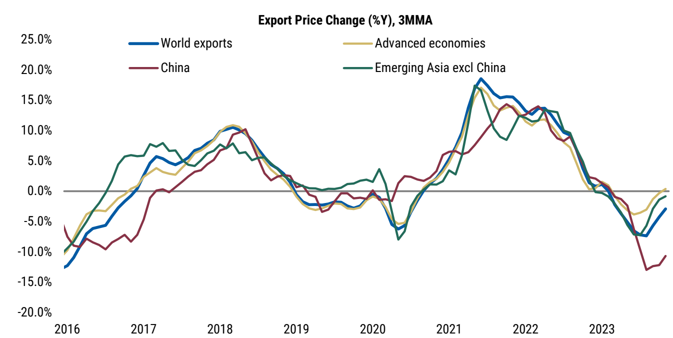
The value of global exports has fallen, while the volume of global goods exports has been largely flat. As of Nov-23, which is the latest available data, global goods exports are flat YoY and down 1.0% YTD in value terms (Exhibit 1). In value terms, global exports have fallen 5.3% YTD compared to a year earlier, because export prices fell an average 4.4% over 2023 (Exhibit 2). That pattern has begun to reverse over the past three months, with export price deflation falling from 7.4%Y in August to 2.9%Y in November. DM export prices are now mildly inflationary, even as Chinese export price inflation stands at -9.8%Y in November, having averaged -11.8%Y over the past 6 months.

Exhibit 1: Global exports in value and volume terms have fallen YoY, but have begun to stabilize sequentially in late-2023.



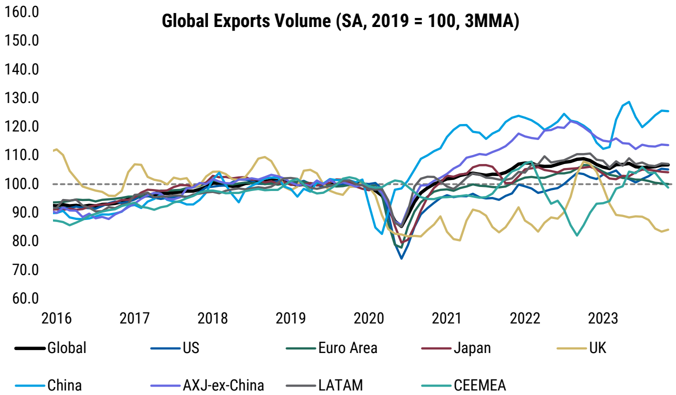
Source: Haver, Morgan Stanley Research

Exhibit 2: Export prices have recovered over the past quarter, even as Chinese export prices remain deeply deflationary



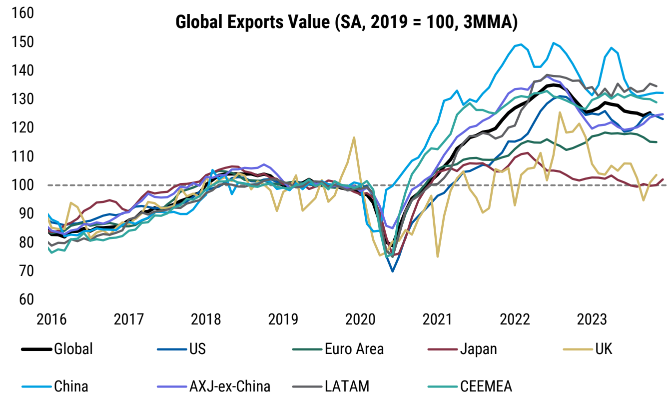
Source: CPB, Morgan Stanley Research

Exhibit 3: Export growth has been more heterogenous since Covid, within Asian outperformance and British underperformance



Source: Haver, Morgan Stanley Research

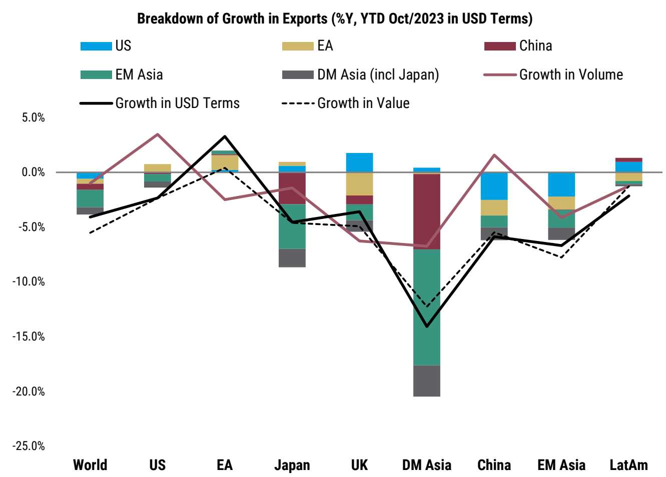
Exhibit 4: Global goods exports have declined drastically in value terms, but are stabilizing as export price indices reflate



Source: Haver, Morgan Stanley Research

Goods exports have declined across the globe in 3Q23, in both dollar terms and in value terms. This has been driven by a combination of weak growth, deflation in China and currency effects. Exhibit 5 decomposes the export growth in value terms, which closely tracks trends in value terms.

Exhibit 5:
Trends in trade volumes and values remain divergent, and lower trade values



Source: IMF DoTS, CPB, Morgan Stanley Research

In the **US**, trade volume has increased, but with export price deflation averaging -5.5%Y over the past 8 months, trade in dollar terms has continued to decline.

The **Euro area** stands as the only major exporter with positive export price inflation over 2023, and has seen positive growth in value terms, despite a contraction in volume terms. In dollar terms, much of the increased value is attributable to intra-EA trade and possible currency effects.

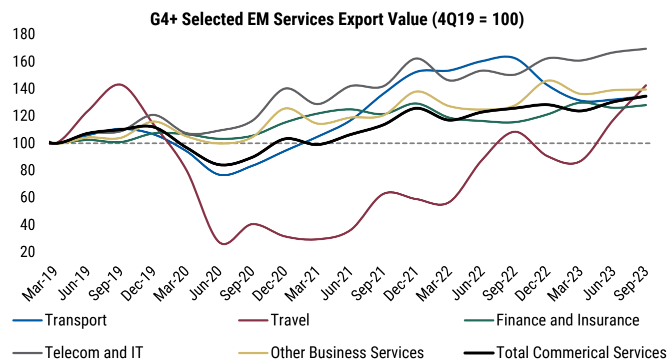
China continued to show positive export volume growth, but deep deflation has meant a sharp contraction in dollar and value terms, driven by a slowdown in dollar exports to US, EA and EM Asia.

Across **EM Asia**, **DM Asia** and **Japan**, both volume and value growth has been negative, and this decline in the value of goods exports can be attributed to weaker growth in other regions of Asia, pronounced deflation, and weaker Asian currencies. Weaker exports to the

US have weighed on China and EM Asia, but have boosted UK exports. Persistent deflation in China has meant that despite a slight uptick in export volumes, exports in value terms have fallen significantly- especially in case of exports to US and Euro area.

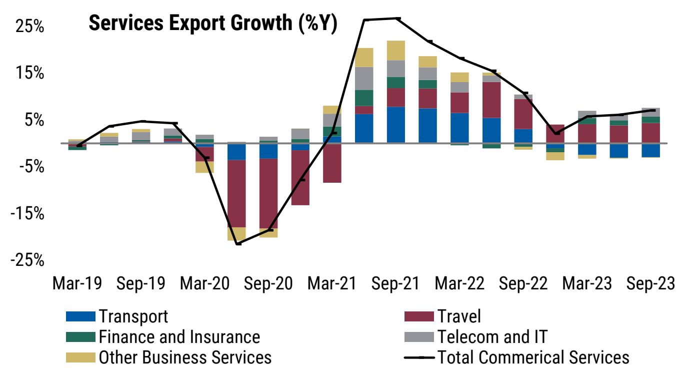
Meanwhile, services exports grew 3.2% QoQ in 3Q-23 (latest data available) and 5.4%Q in 2Q-23 following a year of gradual growth (Exhibit 6). All major categories of services exports grew QoQ, with travel exports driving sequential growth. Transport services continue to be a drag on YoY growth due to large base effects (Exhibit 7).

Exhibit 6: Services exports grew 3.2%Q and 7.0%Y in 3Q-23 ...



Source: WTO, Morgan Stanley Research

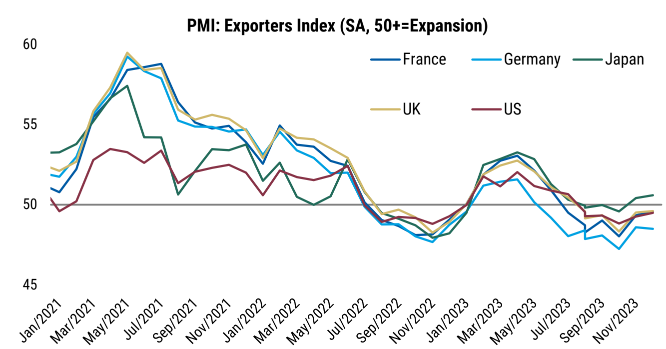
Exhibit 7: ...driven by Travel and Other Business Services exports, and dragged down by Transport services



Source: WTO, Morgan Stanley Research

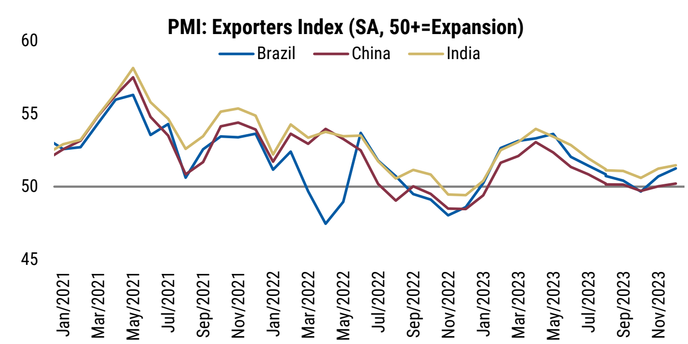
The PMI Exporters Index in the DM and EM continues to be divergent. In DMs, the Index has improved in recent months, but remains in contractionary territory, with German PMIs continuing to lag. Among EMs, Chinese PMIs remain flat, while Indian and Brazilian PMIs have improved of late, but remain subdued (below 51.5).

Exhibit 8: Most DM Exporters Index PMIs remain contractionary...



Source: S&P Global, Haver, Morgan Stanley Research

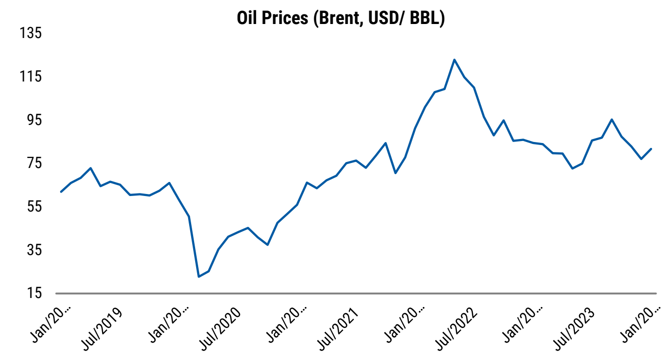
Exhibit 9: ...while EM Exporters Index PMIs have shown improvement towards the end of 2023



Source: S&P Global, Haver, Morgan Stanley Research

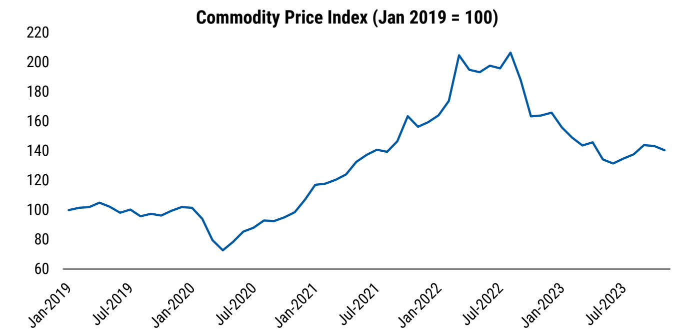
Oil prices have moderated. After rising to 95 USD/ BBL soon after the announcement of voluntary cuts from Saudi Arabia and Russia, oil prices have cooled off in late-2023. Despite a slight uptick in January, our commodity strategists expect the Red Sea disruptions to only have a limited impact on oil prices, and forecast Brent at 77.5 in 2Q24, and 75 in 4Q24.

Exhibit 10: Oil prices have cooled since September...



Source: Bloomberg, Morgan Stanley Research

Exhibit 11: ...and the Commodity Price Index, which closely tracks oil prices is likely to cool as well



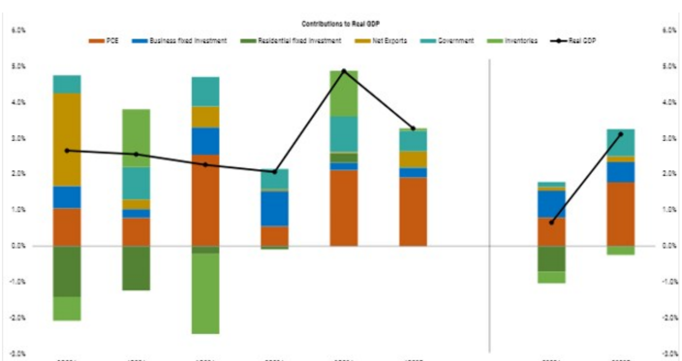
Source: Bloomberg, Morgan Stanley Research

In the **US**, trade contributed 0.43%Q to GDP, with exports contributing 0.68%Q (at a growth rate of 6.3%Q SAAR) and imports contributing -0.25%Q (at a growth rate of 1.9%Q SAAR) (Exhibit 12). Imports have fallen over the course of 2023, but we expect import growth to pick up in 2024 and 2025. As a result, the contribution of trade to GDP growth is expected to be flat in 2024 and a 10bp drag in 2025.

In the **Euro area**, there was no contribution of net exports to GDP growth, as negative import and export growth balanced each other out on a QoQ basis. We expect exports to pick up to 1.1%Y in 2024 and strengthen further to 2.7%Y 2025, after contracting by 0.1%Y in 2023. Net exports are not expected to contribute meaningfully to GDP growth over 2024 and 2025.

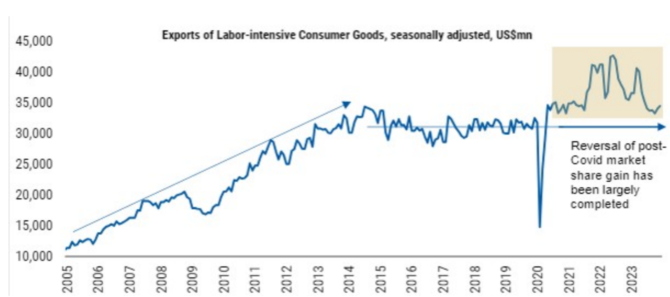
Chinese imports and exports are both stabilizing despite the weak data, following regional trends on the back of an improvement in the tech cycle (integrated circuits, displays and computers) as well as strength in commodity imports (amid gradual fiscal easing on infrastructure). In value terms, the market share gained by China after the Covid-19 pandemic in the export of labor-intensive Consumer Goods has reverted back to pre-Covid levels. While competitiveness in the green supply chain and global consumer demand (resilient real income growth) can lend support to exports, an overall slower global growth (MS expects 2.8% in 2024 vs. 3.1% in 2023) suggests **China's exports may grow at a modest 2% in 2024 (vs. -4.6% in 2023).**

Exhibit 12: In the US, Net Exports supported 4Q-23 growth with a 40bp contribution



Source: Bureau of Economic Analysis, Morgan Stanley Research

Exhibit 13: In China, Labor-intensive consumer goods exports further stabilized and China's market share has reverted to pre-Covid levels



Source: China Customs, CEIC, Morgan Stanley Research. Including clothing, textile, shoes, suitcases, and toys.

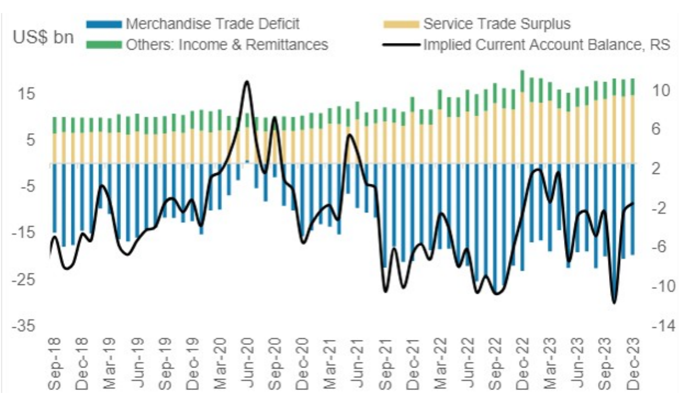
In the **UK**, goods exports, adjusted for the trade in erratics, are deeply subdued relative to pre-2020 levels- as of 2Q23, they are 14% lower than 2019 levels in volume terms, clearly underperforming other DMs. While services exports have been robust, the UK's key exports- professional services, finance, travel – exhibit a strong beta to the global cycle, and so as the global economy slows, we expect to see sluggish exports growth figures. However, owing to weak demand and import growth, net trade is expected to be a mild boost to growth.

In **Japan**, we expect net trade to contribute 0.5%Q SAAR to GDP growth in 4Q-23, with exports growing 11.7%Q SAAR (3.3%Y) and imports growing 8.8%Q SAAR (-1.9%Y).

In **India**, Goods exports rose 1% YoY and imports declined 4.9% YoY in December, while the trade deficit narrowed. Net services exports, on the other hand, fell on a YoY basis but improved MoM. Oil exports contracted 17.6% in December, while non-oil exports rose 6.2% Services exports growth declined 10.3% in December vs. a 4.1% rise in the prior month. However, the services trade balance rose sequentially to a 12-month high of US $14.6bn, even as it declined 4.4% YoY due to base effect (Exhibit 14). On a monthly annualized basis, the net services balance was steady at 4.7% of GDP, similar to November levels.

Korean exports surged 18%Y in January, exhibiting strength in value and volume terms, led by strong tech exports (Exhibit 15) and US shipments- for the first time in 20 years, US became Korea's largest export partner in December (19.6%), replacing China (18.8%). We remain upbeat on a tech exports-led growth recovery this year, based on two steady tailwinds propelling rebound in shipments: (1) tech up-cycle and (2) capital goods flow driven by increased FDI to the US. We see a sharp rise in tech exports and only a gradual slowdown in US demand, coupled with China activity bottoming out.

Exhibit 14: India's Service Trade balance Improved further



Source: CEIC, Haver Analytics, Morgan Stanley Research

Exhibit 15: Korean semiconductor exports are on a sharp rise

Source: Korea customs, Morgan Stanley Research

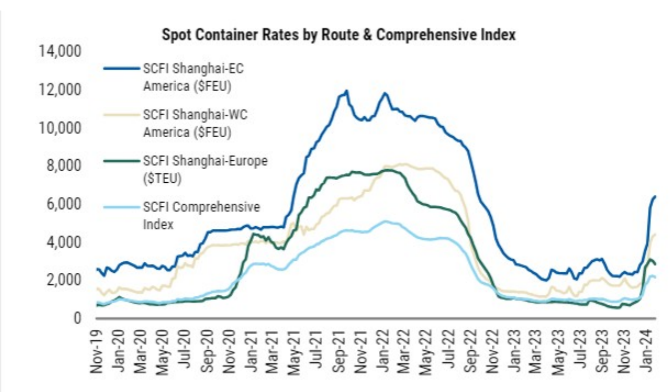
Global Trade and the Red Sea Disruption

Approximately 12% of global trade or 30% of global container trade traverses via the Suez Canal, and recent trade events have brought supply chain disruptions back into focus. So far, the transit of containerships has stalled, while the passage of other ship types, like bulk carriers and oil tankers, has not been affected as adversely (Exhibit 18). Ships are now sailing around the Cape of Good Hope, adding 10-14 days to travel times. So far there is trade diversion, but not trade destruction. However, sharp increases in spot container freight rates have begun had impacts on the microeconomy. Our European equity analysts are also hearing about disruptions in corporate earnings discussions, and some automakers in Europe have announced that they are suspending production due to a shortage of components.

Exhibit 16: The Suez Canal is critical to global trade

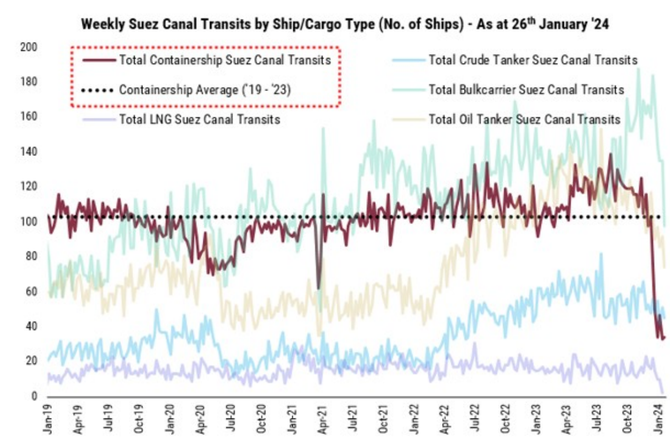
Source: Morgan Stanley Research, Clarksons. Note: Transits (weekly) are measured on a YoY TEU basis as at 26/01/24

Exhibit 17: Although we have seen freight rates increase in recent weeks, this is off a very low base



Source: Morgan Stanley Research, Clarksons

Exhibit 18: Containership transits have fallen, but other types of ships have not been affected as much

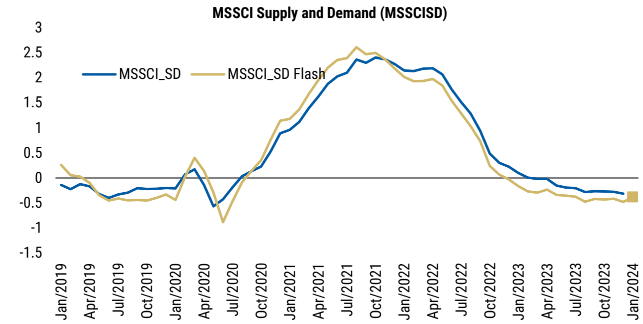


Source: Morgan Stanley Research, Clarkson Research

With inflation on a downward trajectory, and key DM central banks poised to begin cuts, we discuss the likelihood of a material impact on inflation.

At a macroeconomic level, shipping costs matter and are a piece of broader supply chains. But shipping costs and times are only one of many inputs that influence supply chains. The Morgan Stanley Supply Chain Index (MSSCI) is a supply chain measure that we have used in recent years to measure supply chain disruption. It aggregates a range of inputs that have recently correlated well to goods inflation. The index rose modestly in December because of increases in sea (Baltic Dry Index: +40%M) and air freight rates (Import Air Freight: +13%M). But these rises are off of a low base, as containership rates are as much as 86% lower than their post-Covid highs. The overall index had already fallen back to pre-COVID levels, so the current disruptions are small relative to those we have seen in recent years.

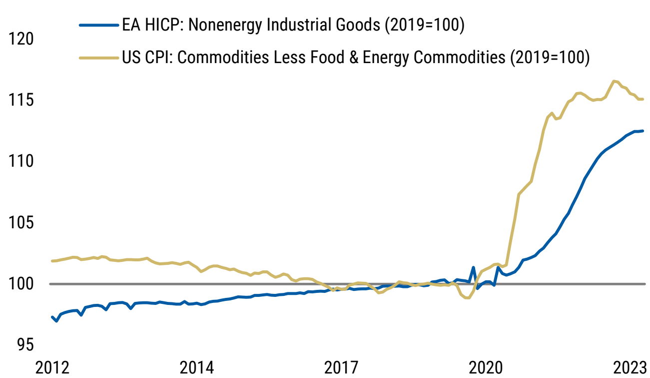
Exhibit 19: MSSCI ticked up modestly in December, and MSSCI-Flash suggests another moderate increase in January



Source: Morgan Stanley Research, Haver Analytics, Clarkson Research
Note: MSSCI Flash excludes BLS Air Freight prices

We discuss trends in the MSSCI and its components in a subsequent section.

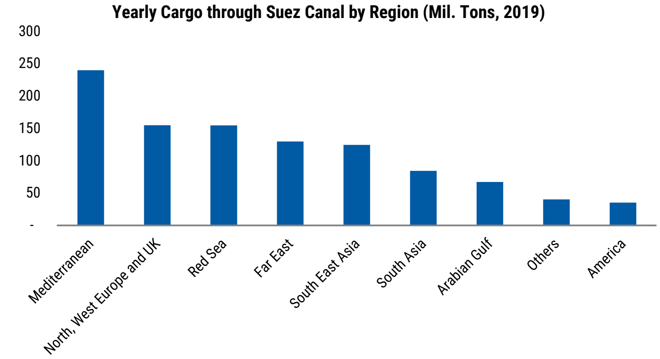
Exhibit 20: US and Euro area core goods prices still have along way to fall to their pre-Covid trends



Source: BLS, Eurostat, Morgan Stanley Research

Another reason the current disruption has not changed our view on inflation is that the trend for goods prices has downside risks. In the US, the level of price index for core consumer goods (commodities less food and energy) is still 15% above pre-Covid levels. We expect that level to fall back toward the pre-Covid trend over time because the composition of spending has shifted back from goods toward services, and we expect overall consumer demand to soften further. Any upward price pressure from the container shipping disruption will be very hard to discern in the already-uncertain path for consumer prices. Indeed, with weaker demand, corporations are likely to face pressure to absorb costs in their margins instead of passing price rises to the consumer.

Exhibit 21: Cargo heading to Europe accounts for the largest share of Suez Canal traffic



Source: Suez Canal Authority, Morgan Stanley Research

Europe is more exposed to the Red Sea disruption. For Europe, scenarios where the disruption could have a more material effect include if vessels are redirected to longer routes for more than 2 quarters or if we see a material escalation in the conflict that affects energy prices. A persistent increase in containership rates would first cause an increase in the producer prices, which historically tend to affect consumer goods with a lag of nine months.

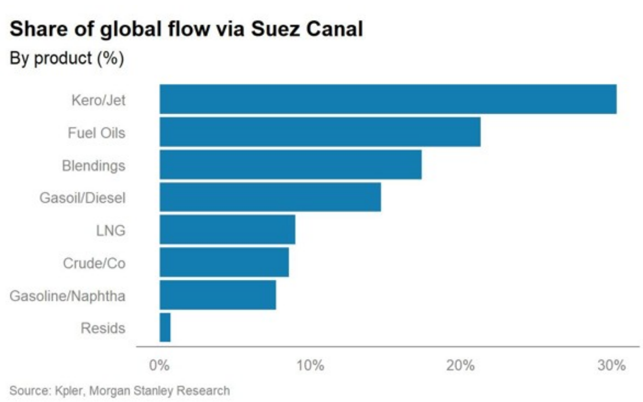
Our European Economics team estimates that a one-off lengthening in supplier delivery times as large as the one seen in the January PMIs could increase inflation by around 10bp, where in the UK the impact is 15bp. More permanent disruptions could lead to a more meaningful uptick in inflation. If disruptions were to last for less than five months, then the impact on the outlook would be rather limited. A more persistent shock (lasting more than 6 months), on the other hand, would represent a more material risk to the inflation outlook.

Further, persistent deflation in Chinese export prices is likely to in part, counteract any persistent increases in core goods prices.

Effects on Energy Prices

MS Commodity strategists expect current disruptions to have only a limited impact on crude oil prices.

Exhibit 22: The Suez Canal accounted for 9% of global seaborne crude oil trade, but a greater share for refined products



Source: Kpler, Morgan Stanley Research

For now, Suez Canal oil tanker traffic appears to have been relatively resilient (oil products comprised 23% of total cargo in 2019). Flows via the Suez Canal represented ~9% of total seaborne trade in crude oil, but, the largest share came from Russia, which accounted for 35-40% of total oil flow through the Suez Canal. Our commodity strategists expect that Russian oil will remain broadly unaffected and will continue to transit through the canal.

There is a higher impact possible from refined products, as Europe imported ~1.4 mb/d of middle distillate (gasoil/diesel + jet fuel) in 2023, of which ~1.1 mb/d came from refineries East of Suez, mainly in the Middle East and South-East Asia. Hence, the marginal barrel of diesel and jet fuel comes from far-away refineries these days.

With European power prices down -25% in recent months and inventories at very high levels, the scale of disruption to global LNG markets would need to be far higher to revisit the types of inflationary shocks we saw in recent years.

Outlook

Our equity analysts have high conviction that container freight rates have overshot and are headed lower. There remains an oversupply of containers, with new supply far outpacing demand growth. Since container transits through Suez are already close to zero (-80% YoY) following disruptions - incremental supply risk from here seems limited. Although freight costs have increased by approximately 30%, freight rates have shot up by 236%, and this decoupling is likely to ease. The shipping industry has a track record of prioritizing market share over profits, and price undercutting has already begun.

In combination, these factors suggest that the price impact of the ongoing disruptions is likely to moderate.

Broadly, Europe is more exposed to the Red Sea disruption than is the US. But at the same time, for both goods and energy prices, the current trends in Europe are sharply downward sloping, suggesting that the current disruptions in the Red Sea are not yet sufficient to drive a re-acceleration in inflation. For now, we think the story is more of a micro story than a macro one. From a markets standpoint, it is more relevant for margins than for inflation at the current juncture.

Selected Morgan Stanley publications related to the Red Sea Disruption:

European Equities, Commodities, & Economics: Red Sea Disruption, Market Dislocations (31 Jan 2024)

Global Economic Briefing: The Weekly Worldview: Traffic Jam (22 Jan 2024)

The Oil Manual: Suez Canal – Key Stats

US-China Trade Data

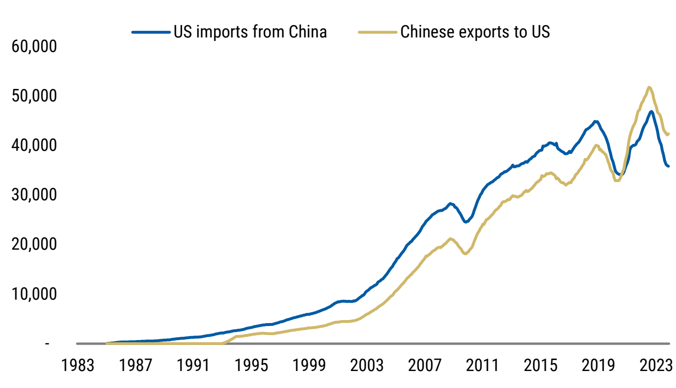
In the Multipolar World we envisioned more than three years ago, our baseline scenario included friend-shoring, localization of critical supply chains and competition around the innovation pipeline. We also pointed out that the possibility seeing a change in the composition of regional trade flows, which would eventually mean the change in supply chain away from China, and alternative trade partners for the US, resulting in two major beneficiaries, India and Mexico.

The change in supply chains can be measured by using various indicators, including trade, capital, information, and human capital. What is important is the "speed" at which the change occurs. One indication may be a decline in China's share in the U.S. imports. When the share drops, the importance of China as a factory to the U.S. could also be declining.

In fact, it did. The value of the U.S. imports from China changed from US$505bn in 2017 to US$536bn in 2022, while the total value of imports changed from US$2,340bn to US $3,243bn, resulting in the decline of China's share in the U.S. imports from 21.6% in 2017 to 16.5% in 2022. This reminds us of the questions investors had regarding our Multipolar World reports whether the U.S. (and Europe) can reduce their import dependence on China across key verticals.

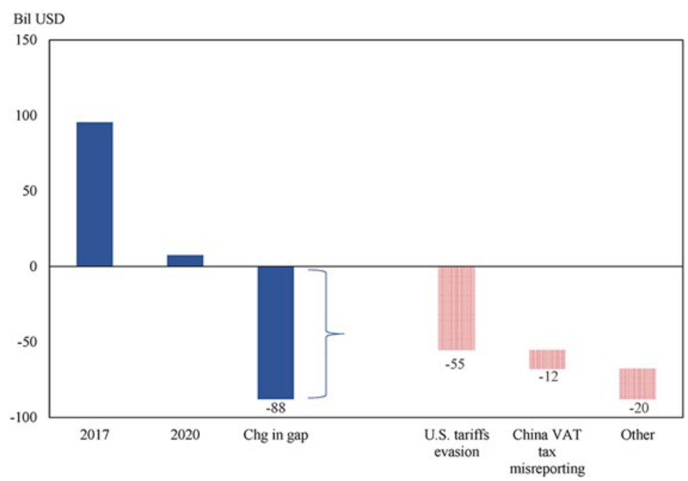
What is interesting, however, is that this data is based on the U.S. Census. Trade is a two-way street. A different picture emerges when compared to statistics from the Chinese side. China General Administration of Customs data show that exports from China to the U.S. rose from US$433bn in 2017 to US$506bn in 2022. In other words, the U.S. data says imports from China increased by only 6.2% over the period, while China data says that it increased by 34.3%.

Exhibit 23: Data vs Data (US imports from China=Chinese exports to US)



Source: US Census Bureau, China General Administration of Customs, Morgan Stanley Research

Exhibit 24: Explaining the change in U.S.-China Reported Trade Data Gap



Source: Federal Reserve Board

The discrepancy between US and Chinese trade data has been documented. A Congressional report used the Harmonized System (HS) data for examining the differences in trade data. This is an international system for classifying traded goods, and since both the US and China use the same HS classifications or “chapters”, a comparison of trade data is possible. The report finds that two of the greatest differences in the official trade statistics of the two countries occurred in two HS chapters—machinery, and electrical machinery. There have been differences in the official trade statistics for these two types of goods since 2001. The reasons for the discrepancies are technical and non-technical. The former covers issues such as data differences arising from procedural definitions, such as evaluating exports on the basis of free on board” (F.O.B.) terms, or “cost, insurance, and freight” (C.I.F.) terms; identification of territories and countries of origin. Non- technical issues include invoicing and issues arising from the intermediate ports used in shipping.

Further insights are also gleaned from the research from the Federal Reserve. Originally, the data from the two countries were linked. There was a certain “gap”, but the gap was stable and was caused by (a) the U.S. classifying imports from mainland China via Hong Kong as mainland China, (b) Chinese firms utilizing VAT, and (c) the U.S. firms under-reporting imports to avoid tariffs, etc.

Interestingly, the “gap” has narrowed markedly since 2018, after the U.S. tariffs on Chinese good were imposed. According to the Fed’s analysis, more than half, if not all, of this may be due to tariff avoidance behavior by the U.S. firms. Specifically, of the $88 billion in gap contraction between 2017 and 2020, $55 billion may be due to tariff avoidance by the U.S. companies and $12 billion to overreporting by Chinese companies in their VAT utilization.

The analysis suggests that China’s importance to the U.S. as a factory and an import source has not declined, at least not as much as the U.S. statistics suggest. This may have important implications for many countries that are as dependent on China for their production bases as the U.S. companies.

There is no doubt that many companies with global operations need to restructure their supply chains sooner or later in various regions. However, if other companies are not building their supply chains in a speedy fashion, the benefits from relocating supply chains too quickly may be missing. In other words, a supply chain relocation that is too fast for a company, may not be a Nash equilibrium. It sometimes makes sense to wait and see what others do, as the supply chain is a chain not a point.

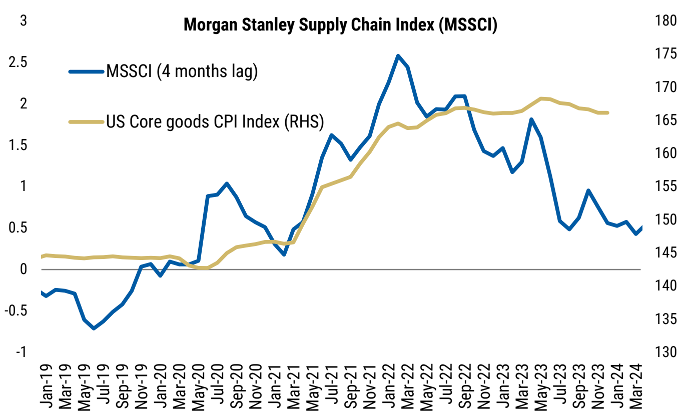
MSSCI: A Modest Rise in December and January Flash

The MSSCI (Morgan Stanley Supply Chain Index) is an index of global supply chain disruptions, and summarizes shipping costs, delivery times and backlogs.

The Morgan Stanley Supply Chain Index (MSSCI) r**o**se modestly in December driven by an increase in shipping and air freight rates (Exhibit 25), and our index incorporating demand factors (MSSCISD) declined slightly to a 42-month low. ***In January, MSSCI-Flash and MSSCISD- Flash rose slightly once more (Exhibit 26)****, and our indicators for January suggest any changes are likely to remain range-bound. We await BLS Air Freight Prices to determine the final MSSCI reading for January.*

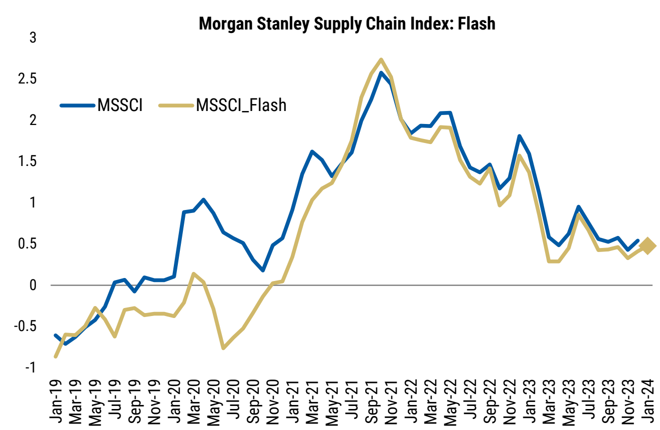
While several components of MSSCI have exhibited signs of stress directionally across December and January, the magnitude of changes remains muted.

Exhibit 25: MSSCI ticked up modestly in December...



Source: Morgan Stanley Research, Haver Analytics, Clarkson Research

Exhibit 26: ...and MSSCI-Flash indicates another small increase is likely in January...

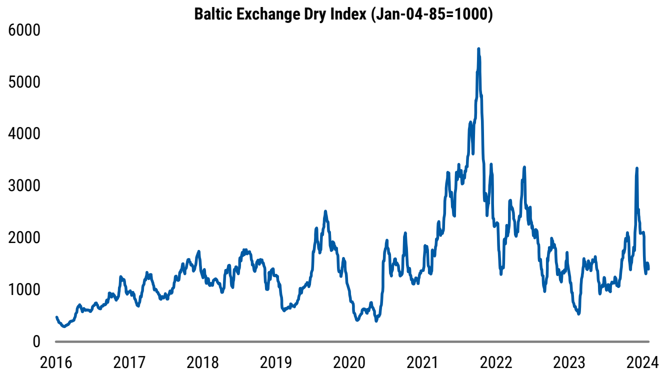


Source: Morgan Stanley Research, Haver Analytics, Clarkson Research

Shipping and Air Freight prices drove MSSCI up modestly in December: The Morgan Stanley Supply Chain Index (MSSCI) modestly rose by 11bp to 0.54 in December, but remained below its 6-month average and October level. ***In January, MSSCI-Flash indicates another small increase is likely.***

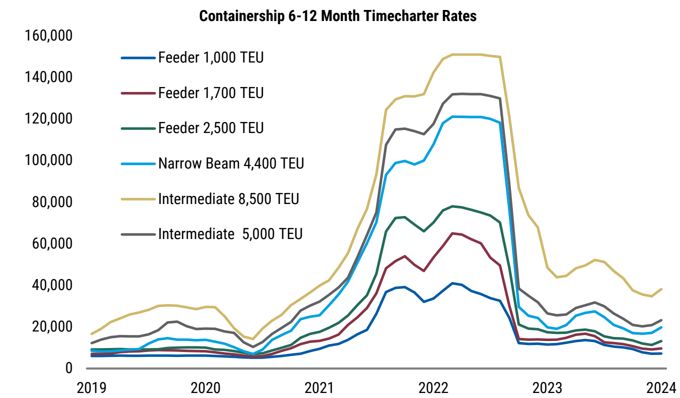
- Shipping rates, measured by the **Baltic Dry Index**, averaged 2,538 in December- nearly 40% higher than in November. *As of January, the index has fallen 36% from its December levels, and is 10% below its November levels as well (Exhibit 25).*
- In December, **containership rates** continued to decline, but at a slower rate than in past months. *Over the course of January, containership rates ticked up by an average of 10% MoM, as Red Sea disruptions have primarily affected containership rates to this point. However, containership rates remain, on average, 20% lower on a YoY basis, and are one-fifth of where they were 2 years ago (Exhibit 26).*

Exhibit 27: The Baltic Dry Index has fallen 36% in January and erased its December increases to fall below November levels



Source: BALTIC, Haver, Morgan Stanley Research

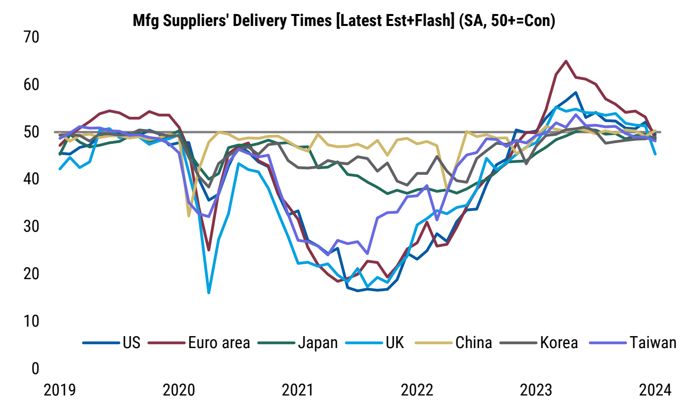
Exhibit 28: While containership rates rose 10% MoM, they are still 20% lower than they were a years ago, and 80% lower than 2 years ago



Source: Clarkson, Morgan Stanley Research

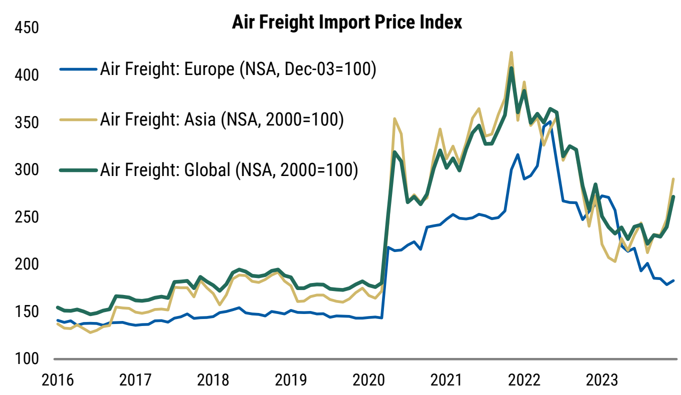
- **Global Mfg Delivery Times PMIs** declined slightly (51.1 to 50.9), while PMI: Mfg Backlogs declined from 46.5 to 45.7. Stocks of Purchases (47.2) and Stocks of Finished Goods (49.4) remained flat. *In January, Delivery Time PMIs continued to decline from 50.9 to 49.4 (indicating an increase in delivery times), especially in UK and Euro area, but Asian PMIs were unaffected. Thus far, the decline in Delivery Time PMIs has been small compared to disruptions during Covid-19 (Exhibit 29).*
- **US air freight import prices** from Asia rose 17%M in December, their sharpest one-month increase since May 2020. *We await the release of BLS's Import Price Indices for January, expected on Feb 15, 2024 (Exhibit 30).*

Exhibit 29: While delivery times have increased in EU and UK, they remain stable across Asia



Source: S&P Global, Haver, Morgan Stanley Research

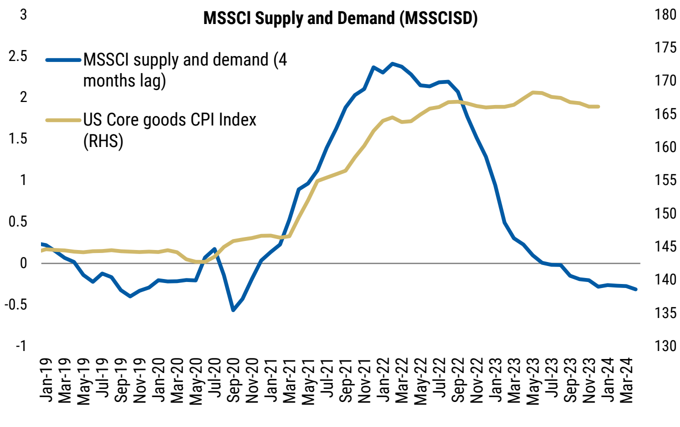
Exhibit 30: Air Freight prices from Asia rose sharply in December



Source: BLS, Morgan Stanley Research

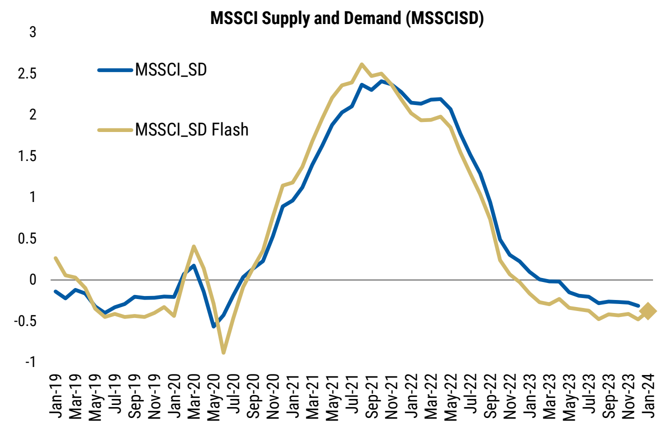
In December, MSSCI Supply and Demand, which incorporates demand and supply factors, fell to a 42-month low of -0.31 (Exhibit 31), well below its 2019 average of -0.24 and 2017-2019 average of 0.05. ***MSSCISD-Flash** suggests MSSCISD is likely to **increase slightly in January (Exhibit 32),*** but remain well below its pre-Covid averages.

Exhibit 31: MSSCISD, which incorporates supply and demand, fell slightly in December



Source: Morgan Stanley Research, Haver Analytics, Clarkson Research

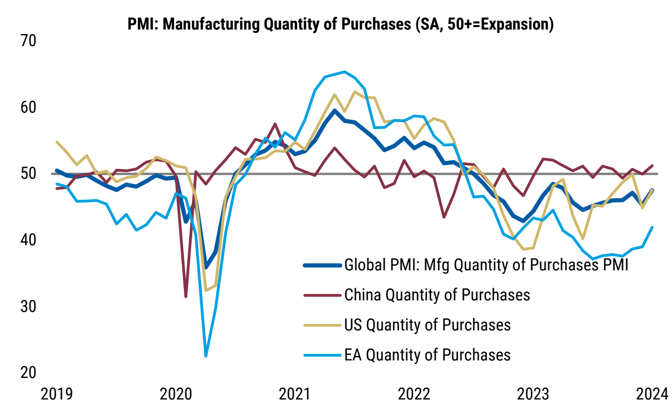
Exhibit 32: ...and MSSCISD-Flash suggests a small increase is likely in January



Source: Morgan Stanley Research, Haver Analytics, Clarkson Research

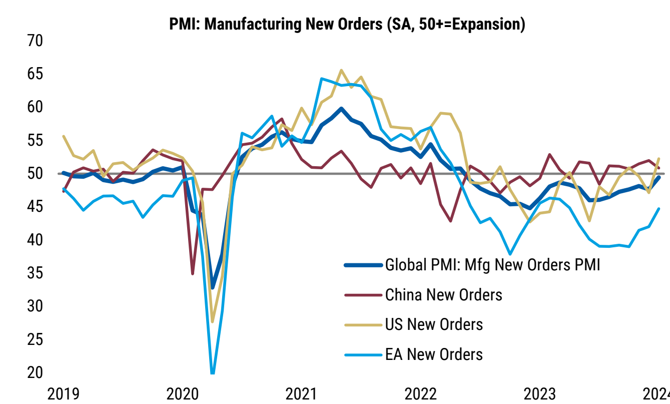
In December, Global Demand PMIs deteriorated after 5 consecutive months of improvement, with Global Manufacturing Purchases PMIs declining by 1.9pts to 45.3 and New Orders PMIs declining by 0.6 pts to 47.6. ***In January, global demand PMIs improved****, led by a strong recovery in Euro area New Orders and Purchases PMIs. Global New Order PMIs increased 2.2 pts to 47.6 (Exhibit 33) and Global Quantity of Purchases PMIs increased 1.8 pts to 49.4 (Exhibit 34).*

Exhibit 33: Global Demand PMIs picked up in January, as Quantity of Purchases PMI...



Source: S&P Global, Haver, Morgan Stanley Research

Exhibit 34: ...and New Orders PMIs improved markedly in the Euro area



Source: S&P Global, Haver, Morgan Stanley Research

MSSCI Methodology

The MSSCI (Morgan Stanley Supply Chain Index) is an index of global supply chain disruptions, and summarizes shipping costs, delivery times and backlogs.

The index summarizes 33 series using Principal Component Analysis, including information from PMI surveys (delivery times, backlogs of work and stocks of purchases), the Baltic Dry Index, global containership charter rates for different ship capacities (Alphaliner's rates for capacities from 1,000 to 8,500 TEU and Clarksons average containership earnings), and air freight costs from the US to Asia and Europe, and vice-versa. PMI surveys for US, Euro Area, China, Japan, UK, Korea, and Taiwan are used.

Since high transportation costs, long delivery times and low inventories may be caused not only by supply chain disruptions but also by strong demand, the MSSCI controls for demand effects, while the 'MSSCISD: MSSCI Supply and Demand' index does not adjust the data. The difference between the two highlights the relative importance of supply and demand.

MSSCI Flash and MSSCISD Flash exclude BLS Air Freight Import and Export price indices, which are released later in the month.

Further details regarding the MSSCI and MSSCISD can be found here.

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