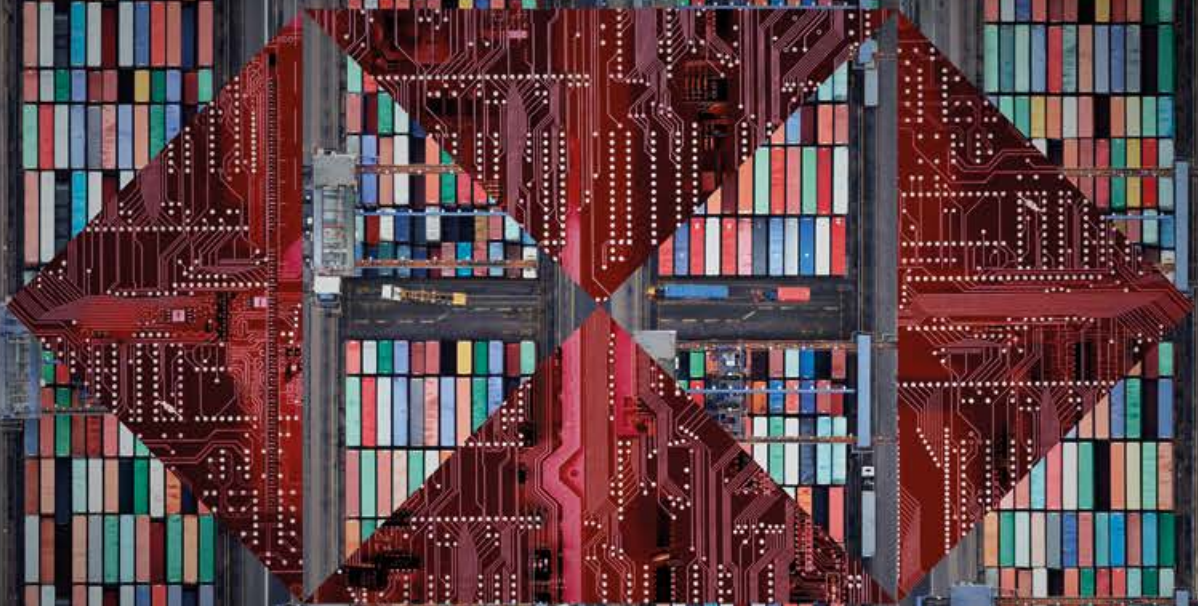


Navigator

Now, next and how for business

Global



Global Report

Businesses remain positive about their trade outlook, but clouds are gathering on the horizon

The 2018 HSBC Navigator survey shows businesses are generally optimistic about their trade outlook, while a variety of indicators suggest that world trade is losing momentum. The broader implications of the escalating US-China trade dispute — including the potential knock-on to industry supply chains and risks to the global economy — may not be fully appreciated by many businesses.

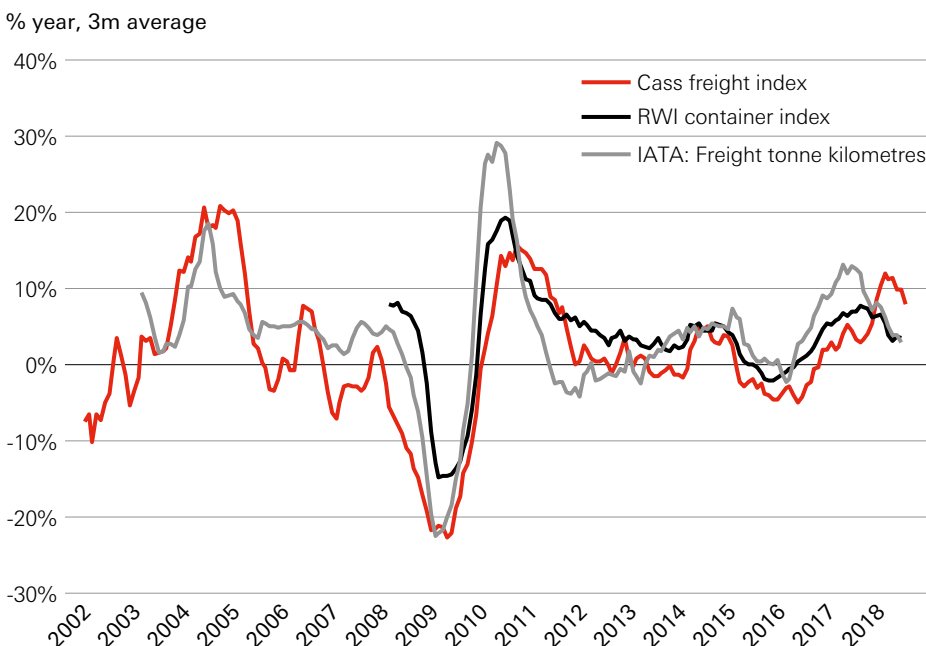
What is happening now

Growth in world trade may have passed its cyclical peak

There is growing evidence to suggest that the early months of 2018 marked the cyclical peak for global GDP growth, and a slowdown over coming quarters is likely. While there is so far limited evidence that protectionism fears have significantly dented the global economy, the recent announcement of further US tariffs on imports from China, and China's retaliatory actions, signal a marked escalation of their trade conflict.

The upsurge in protectionism comes at an inopportune time for the global economy, as world trade appears to have slowed in recent months. This slowdown is especially evident in freight-based indicators – for example, annual growth in the RWI/ISL container trade index (which is based on data from 88 ports and covers around 60% of worldwide container traffic) slowed to 3.6% in July 2018 from a peak of 7.8% in September last year. A similar slowdown can be seen in the IATA indicator of international freight-tonne kilometres, a measure of international air freight business.

Fig. 1: Global alternative trade indicators



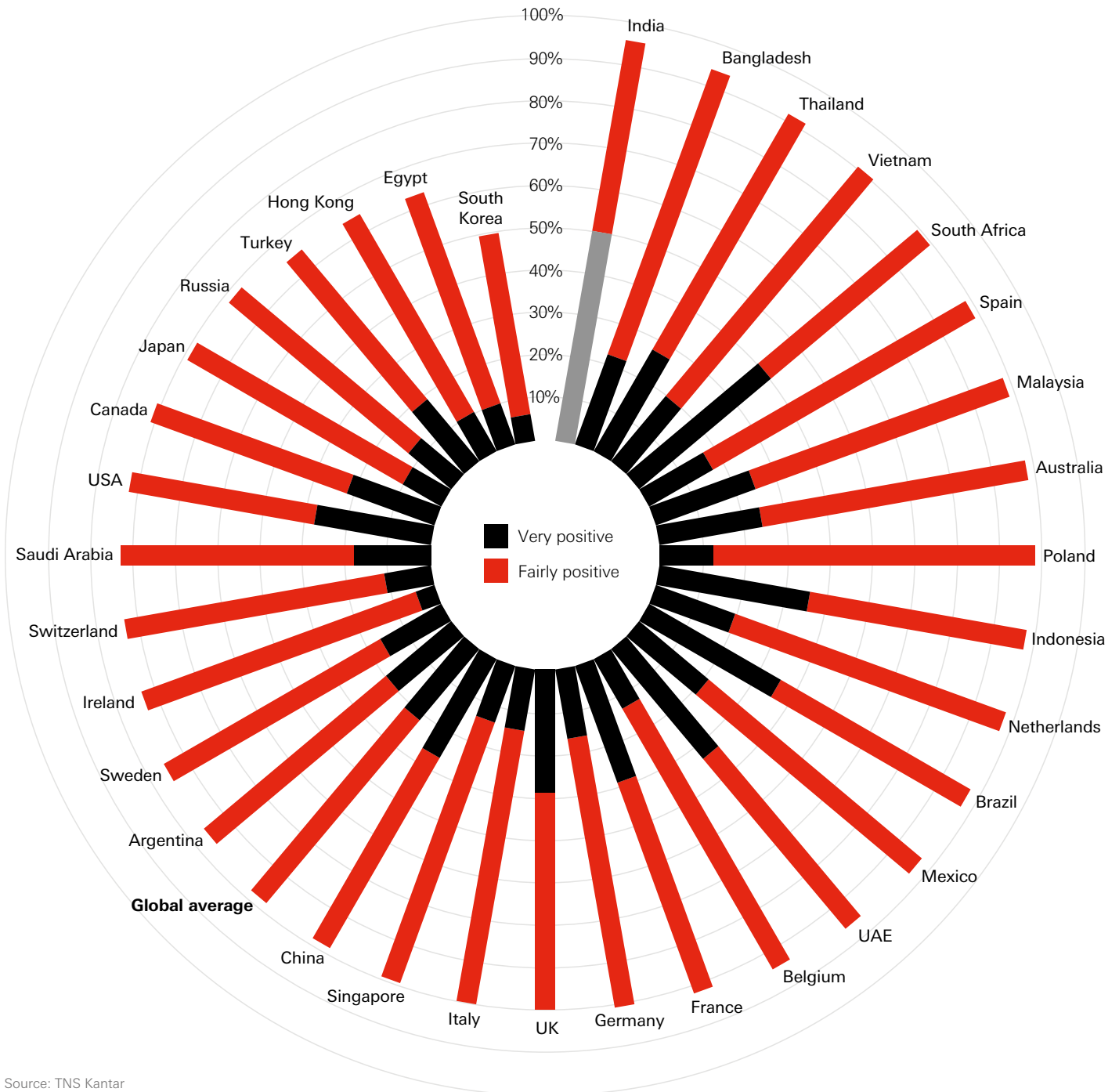
How your business can respond

- ◆ Companies need to map their supply chain models to understand their direct and indirect exposure to a potential escalation of the global trade dispute.
- ◆ Firms should take advantage of potential trade diversion opportunities as Chinese and US firms look for new markets or cheaper suppliers.
- ◆ Look at how you can hedge changes in currency value to respond to fluctuations
- ◆ Develop a trade strategy that can be adapted as developments unfold. Where necessary, seek professional advice about changes to countries' policies on tariffs and duties.

Freight indicators for Asia have been particularly weak, with annual growth in cargo handled by the ports of Shanghai and Hong Kong having both moved into negative territory. On the other hand, the booming US economy appears to be supporting trade in the region, with annual growth in the Cass Freight index (which measures North American freight volumes) still relatively strong, notwithstanding some recent softening.

Up-to-date information on trade in services is less readily available, making it more difficult to track recent developments in this area. However, data from IATA on revenue passenger kilometres for international flights indicates a more modest softening in growth from 7.9% in 2017 to 6.6% in the year to July 2018. This suggests that global tourism & travel is so far proving more robust than trade in goods.

Fig. 2: Firms with a positive outlook on the global trading environment



Source: TNS Kantar

The HSBC Navigator survey suggests that the vast majority (78%) of businesses globally remain positive about the outlook for trade, and a smaller proportion (22%) described the outlook as ‘very positive’. Sentiment appeared broadly consistent across both goods and services providers. The reasons most commonly cited by respondents for having a positive outlook are their assessments of global economic growth and the domestic economy (cited by 31% and 27% of respondents respectively).

At a regional level, companies in South America (32%) were most likely to view the environment as ‘very positive’, while firms in Europe (18%) were least likely to express this opinion. While the average response in APAC was close to the global average, there was also a significant degree of variation at the country level – firms in India and Bangladesh were the most positive, for example, while those in South Korea and Hong Kong were among the least positive. This may be linked to the relative exposures of these economies to the outlook for China and associated collateral damage from its trade dispute with the US. Indeed, a majority of firms in South Korea (85%) and Hong Kong (83%) identified geo-political factors as having a negative impact, which was higher than the average for the APAC region (78%).

Policy Developments

Firms appear sanguine about the impact of the US-China trade dispute

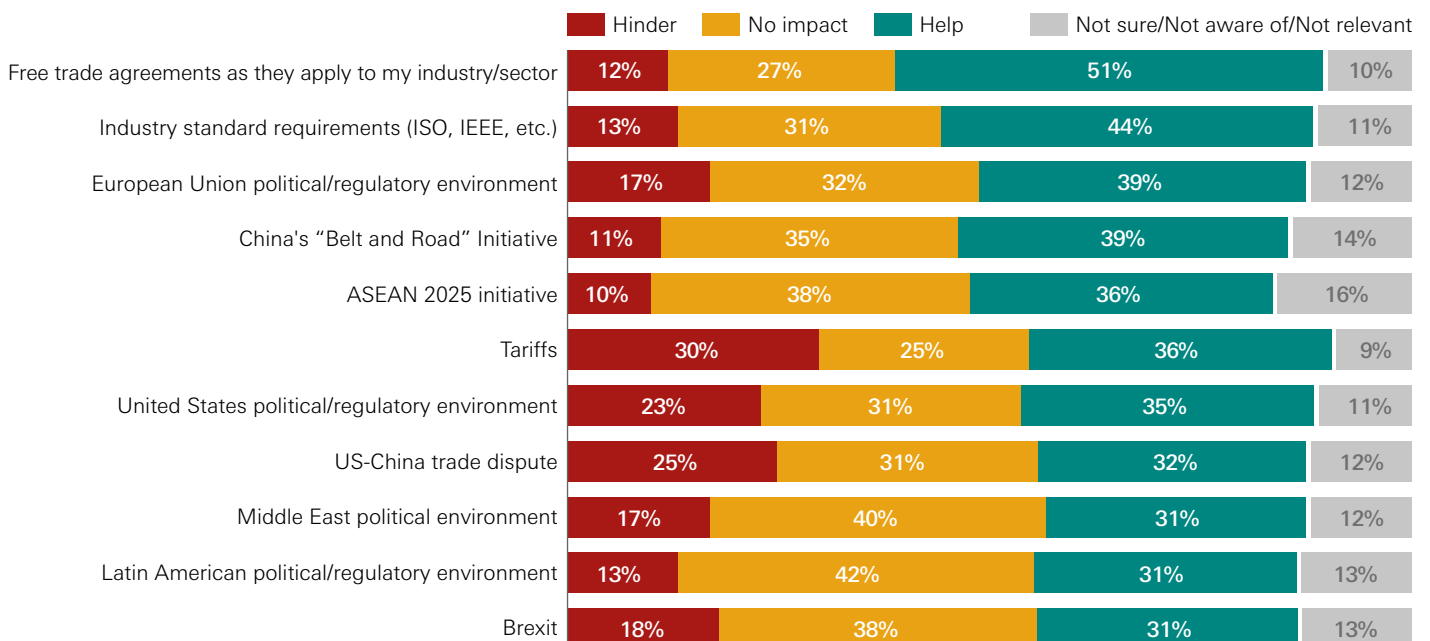
Prospects for a de-escalation of the US-China trade dispute appear low in the short term, with risks exacerbated by limited communication between the two sides, strong ideological beliefs and non-negotiable strategic ambitions. Moreover, retaliatory measures by US trade partners – particularly Europe – in response to the previously-imposed US tariffs on steel and aluminium, as well as the growing risk of US import tariffs on autos, suggests a further rise in protectionism.

Although the HSBC Navigator survey was conducted before the US imposed its latest round of tariffs on China, it is likely that sentiment had already been influenced by these pre-announced actions. It is therefore unsurprising that almost two-thirds (63%) of businesses surveyed reported that governments were becoming more protectionist in their key export markets. Views regarding the impact of regulations were more nuanced though, with 34% of firms seeing them as adding to the cost of doing business but 29% viewing regulations as helping their competitiveness.

How your business can respond

- ◆ Identify data sets that could help your business answer important strategic questions. If you do not already have access, examine the feasibility of constructing internal data collection systems or acquiring external data.
- ◆ View your supply chain through a sustainability lens to reduce exposure to reputational issues and introduce savings by reducing waste and introducing greater efficiencies.

Fig. 3: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

Focussing on the impact of global policy developments. The majority (51%) viewed relevant free-trade agreements as having a positive impact on their business. On the other hand, a higher proportion (36%) viewed tariffs as helping their business rather than being a hindrance (30%), suggesting ongoing support for protectionist policies in some areas of the business community. A positive view of tariffs was most prevalent in South America (47%) and MENA (44%), reflecting that businesses in these regions remain sheltered by higher-than-average tariff barriers.

It was also interesting that almost a third (32%) expect the US-China trade dispute to help their business, whilst 31% expect no impact. Again, the positive view was most prevalent amongst businesses in South America (52%) and MENA (40%). While it is conceivable that businesses in some regions expect to gain market share as a result of the trade dispute, these results may indicate that respondents have not fully considered the knock-on effects to their industry supply chain or the negative implications for global economic growth.

Notably, industry standard requirements were viewed favourably by a relatively high share (44%) of firms. This implies that respondents appreciate the role of these standards in providing clarity to facilitate trade through the removal of uncertainty in the selection of products and services.

What is happening next for business strategy

Companies are focussing on productivity to drive expansion

In the near-future, growing market share was identified as the key focus for shaping company direction by just under a third (31%) of companies. In recognition of the increasingly competitive global trade landscape, firms are also intending to focus on improving productivity, with an eye on longer-term growth prospects and profitability.

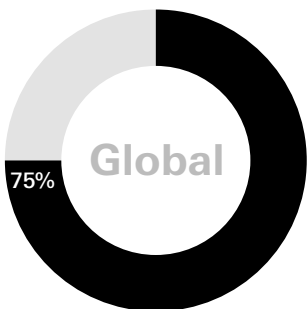
With increasing amounts of data becoming available for multiple aspects of business and everyday life, it was not surprising to find that three-quarters reported using data to optimise performance. The most common datasets used are operational data (50%), transactional data (48%) and market data (43%). Use of sensor data collected from hardware/machines was less common (26%), perhaps reflecting that these datasets are less readily accessible and require more advanced analytical capacity to be useful. Nevertheless, the majority (56%) identified the Internet of Things as bringing opportunities for their business.

Fig. 4: Top 3 actions for future company direction



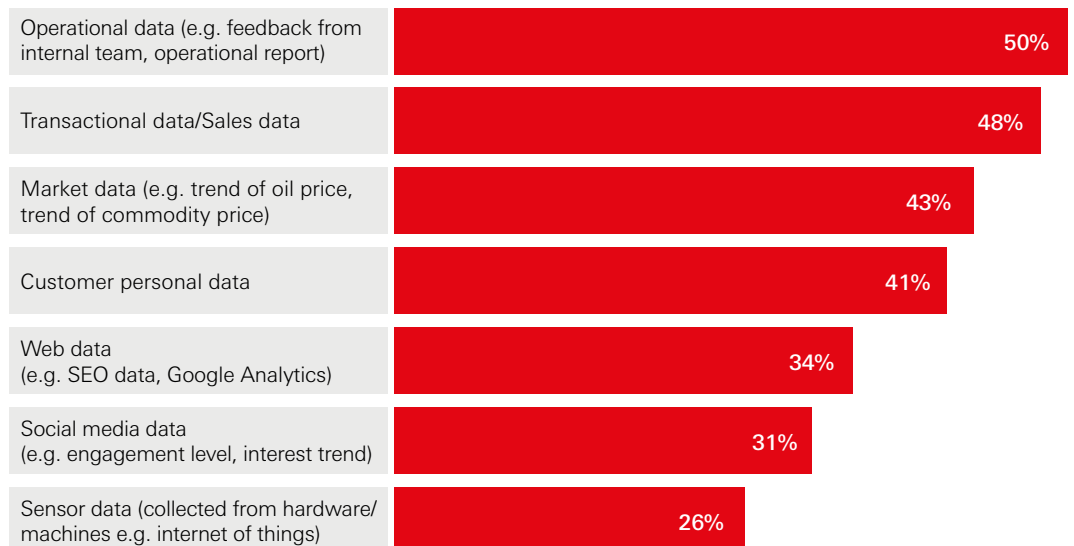
Fig. 5: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

Supply chain sustainability is an important factor for many companies

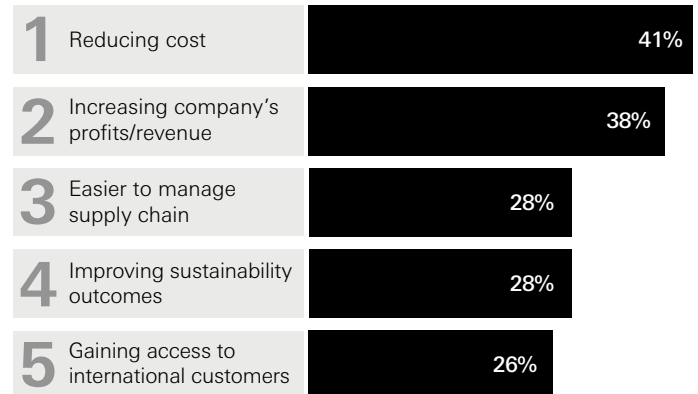
The supply chains of many industries have become increasingly complex eco-systems as companies outsource production to free capital from non-core activities and generate efficiencies. More than a quarter of businesses surveyed in both the manufacturing and services sectors said that increasing their use of technology was the top change planned for their supply chains. Doing business in new markets was also ranked highly in both goods and services industries, indicating an ongoing opportunity for expansion.

Fig. 6: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes

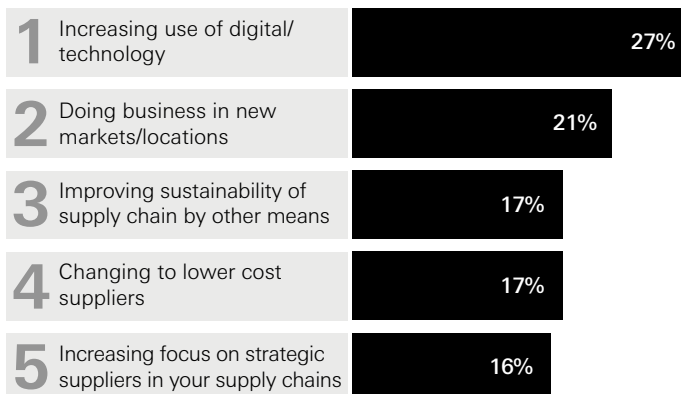


Source: TNS Kantar

The main objectives for planned changes to supply chains are cost savings and increased profits. It is also notable that improving sustainability outcomes also ranked highly among the planned outcomes of these company actions. Respondents are generally mindful of the need to balance ethical and environmental considerations in their business decisions. Around two thirds of companies globally (67% of goods producers and 64% in the services sector) claim that ensuring environmental and ethical sustainability is important to them and that they are either on par or ahead of their peers in their focus on these issues.

Fig. 7: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes



Source: TNS Kantar

About HSBC Navigator

The HSBC Navigator survey, which is the most comprehensive of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers in over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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