

## Severe damage to trade but economic growth more resilient



Source: IATA Economics using data from Netherlands CPB and Oxford Economics

- Increasing tariffs on trade are now damaging the global economy and prospects for 2019. International trade volumes stopped growing in the first quarter of 2019; a sharp slowdown in growth had been apparent in the second half of last year. Air cargo suffered disproportionately and was down 2% in the first quarter of 2019, compared to the same quarter a year ago, which we [analyzed in a note last week](#).
- This substantial weakening in trade followed the imposition of tariffs by the US during the first half of last year and retaliatory tariff increases by several countries. Last Friday saw further escalation, with the US raising tariffs from 10% to 25% on \$200 billion of imports from China. China retaliated with tariffs on \$60 billion of US exports to China, effective 1 June. This could lead to a trade deal but negotiating positions seem to have hardened, perhaps because China is stimulating domestic demand with fiscal policy and the US economy remains strong. The US is threatening to impose tariffs on the remaining \$325 billion of Chinese imports. A deal is now thought to be some months away.
- The initial tariffs on steel and aluminium had only minor impacts on air cargo, since most are carried by sea. However, subsequent tariffs on a further \$200 billion of goods included high tech and machinery parts, which are carried by air. If tariffs are extended further they will include smart phones and computers, which will damage air cargo.
- The striking point about the chart is that overall GDP growth has not been slowed that much by the damage to trade. That's because we've seen partly offsetting fiscal stimulus of domestic demand in countries like China and continued central bank support. There is some adverse impact on economic growth, but it doesn't look like stopping the economic expansion at present. Estimates suggest 2019 GDP growth will be 0.2-0.4% points lower than previously expected if tariffs are applied to all US-China trade. This all points to a very tough year for the air cargo business, but reasonable though slower GDP growth should keep passenger traffic growing only a little below trend.