

## Coronavirus to hit world trade

Attempts to contain the coronavirus are about to hit world trade



Measures to control the spread of the coronavirus are hitting world trade. China's factories remain closed and airlines are cancelling passenger flights to and from China.

Although most cargo flights are continuing operations for now, more than half of air freight is shipped via passenger aircraft and therefore dependent on these flights departing.

Worldwide air freight has a value of \$6 trillion, accounting for a third of world trade. At Schiphol Airport, one of the major European freight hubs, 17% of incoming freight originates from China.

While cancelled flights are a logistical constraint on world trade, production is also affected by the coronavirus. Chinese factories remain closed to prevent the virus from spreading. Many provinces, regions and municipalities, including Shanghai, have extended the Chinese New Year holidays until 10 February. This means production will be delayed. If this continues, there will be more container shipping services cancelled on top of the annual New Year dip.

The interruption of supply chains could have a snowball effect if stocks of essential electronic components from China are depleted.

And this isn't necessarily a temporary slowdown. The coronavirus could potentially impact the annual level of world trade in 2020, as it's not certain that factories and logistics will be able to

catch up and fully compensate for earlier delays, given the limited capacity. If they cannot fully recuperate, global trade growth in 2020 will suffer.

When the situation normalises, goods that would ordinarily be shipped by sea are likely to be transported via an air carrier in order to quickly restore supply chain deliveries and limit possible damage further down the line. However, the costs of air freight are normally five times higher than transport costs over sea, which may affect prices and profit margins.

## Author

### Rico Luman

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).