

World trade continues to grow after July spike

World trade volumes grew 0.5% month-on-month in August after 1.4% MoM in July (*CPB**). Despite this two month increase in monthly growth rates, trade levels are still 1.2% below the same period last year. The trade war, and cooling economic fundamentals globally remain a drag on world trade



Source: Shutterstock

Recent positive news about a potential deal between the US and China brings hope for de-escalation of the current trade tensions. [In our base case scenario the deal will be signed](#) in 2Q 2020. This would cause a return to the growth path next year.

The decline in world trade (1.2% year-on-year) is mostly driven by lower imports by the European Union and Emerging Asia. While US imports are still higher than a year ago, the growth rate has fallen to below 1%.

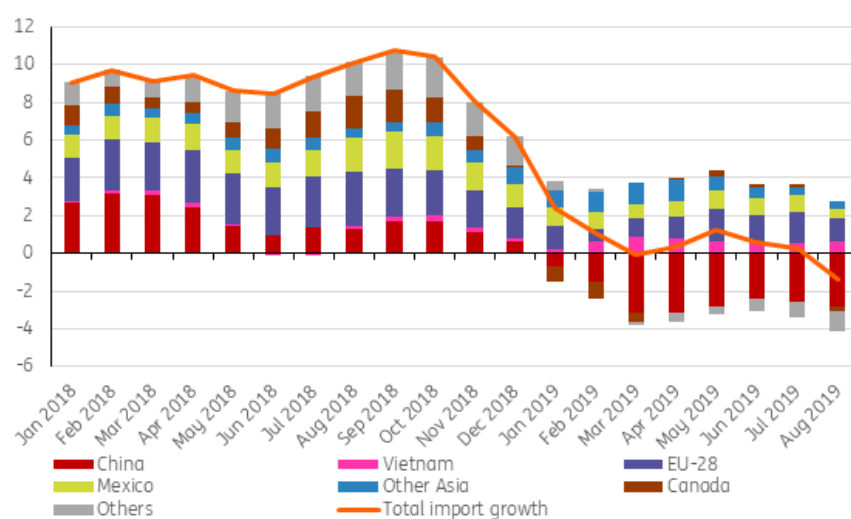
How the trade war affects US imports

The trade war is very much visible in the declining growth rate of US imports. Since the escalation

of the trade war in September 2018, US import growth slowed quickly. While China used to be one of the main contributors to growth of US imports, it became the main drag in 2019. The decline in imports from China is offset by growth in imports from the US' main trading partners and Vietnam, which seems to be a main beneficiary of higher tariffs as US imports from China are to some extent being substituted. While the share of Vietnam in total US imports is only 2%, its contribution to US import growth has been around 1% per month. This signifies the effects of the tariffs, accelerating the move of production from China to Vietnam.

While some production is relocating from China to Vietnam, and possibly to Mexico and the EU as well, the fear for potential further escalation dampens US import growth. Together with poor industrial performance in the European Union, this is expected to remain a drag on world trade.

Contribution to total US import growth by US trading partner



Source: Bloomberg, calculations ING

% growth, YoY, 3 month moving average, nominal

**CPB is the abbreviation for Netherlands Bureau for Economic Policy Analysis*

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