

Snap | 23 November 2018

## World trade falls, with tariffs making their mark

Q3 saw the largest increase in tariffs so far in 2018 but has also been the most successful quarter this year for growth in trade volumes. However, momentum stopped building in September, and headwinds from economic activity, as well as further tariff increases, are likely to keep a lid on growth in the near term



Source: Shutterstock

World trade volumes fell 1.1% in September, partly reversing gains in the previous two months. This still leaves Q3 as the strongest in 2018 to date at 1.4%. The backdrop to this was the largest increases in tariffs so far this year, with tariffs being raised on US\$360bn of US-China trade, 2% of world trade, by mid-September. At US\$481bn, the increase in the value of goods affected by new import-restricting measures between mid-May to mid-October 2018 was the [largest since WTO records began in 2012](#).

Global economic activity, which had been stable during the first half of 2018, helped to support trade volumes in Q3 even as industrial production slowed in Japan and the Eurozone. Policy efforts to de-escalate trade tensions were in place in Q3, with a new EU-US working group meeting to discuss lowering tariffs on industrial goods, market access issues, and WTO reform. Talks between

the US and China also took place but were unable to prevent the tariff increases.

Trade growth is expected to fall back in the coming quarters as the effects of tariff increases play out along supply chains and in increased uncertainty. Survey indicators of activity have slowed, with global Purchasing Manager Indices for manufacturing and manufacturing export orders pointing to weakening demand for traded goods. Further tariff increases are also in the pipeline, as China and the US have continued on their collision course. As things stand, the US plans to increase tariffs further on US\$200bn worth of imports from China in January, and tariff increases on a further US\$267bn worth of imports could follow that. Having already raised tariffs on the majority of its imports from the US, China is likely to retaliate by raising tariffs further, and by [raising non-tariff barriers](#).