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Trade dispute escalation averted for now

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Early last week, hopes for a timely solution to the trade conflict between the US and China soared: "substantial progress" in the recent negotiations caused US President Donald Trump to postpone a deadline for additional tariffs on imports from China. As is his wont, Trump announced this on Twitter. Without any agreement, punitive duties on Chinese goods could have been raised or new tariffs introduced from 1 March. However, this case seems to be averted for the time being.

US economic growth fell in Q4

Current economic data shows a mixed picture for the impact of the trade dispute on the US economy so far. While the GDP grew by 2.9 percent in 2018 overall – the strongest growth in three years – the growth lost momentum in Q4 (Source: U.S. Department of Commerce, 28 February 2019). The Department of Commerce in Washington announced on Thursday that annualised US economic growth fell to 2.6 per cent between October and December, from 4.1 per cent in Q2. The OECD's calculation method, which compares a quarterly result with that of the previous year, yielded 3.0 per cent growth in Q3, compared with 2.9 per cent in Q2.

Chinese economy extremely weak

However, according to official data, Chinese economic growth has suffered an even more serious setback, falling to 6.4 per cent in Q4 – this is the lowest rate in 28 years, never mind the 2008 financial crisis (Source: National Bureau of Statistics of China, 21 January 2019).

The extent to which the world's two largest economies would suffer as a result of a more intense trade war is one of the subjects of a recent study by Munich-based Ifo Institute (Source: „Trump's trade attack on China – who laughs last?", EconPol Policy Brief 13, February 2019). In the study, conducted as part of the EconPol Europe research network, Gabriel Felbermayr and Marina Steininger investigated the impact, the two superpowers' threats of a 25 per cent surcharge on all goods would have: "China would lose much more than the USA in absolute and relative terms," the Ifo researchers conclude. US economic output would fall by 9.5 billion euros, China's by as much as 30.4 billion euros.

Even without new tariffs the US Congressional Budget Office (CBO) foresees a definite negative impact: on average, the GDP will be 0.1 per cent lower over the next ten years if tariffs remain at the current level, according to a CBO report published at the end of January (Source: „The Budget and Economic Outlook: 2019 to 2029", 28 January 2019).

Customs dispute causing an emotional roller coaster ride

Just how fervently market players are hoping for a resolution of the dispute was evidenced by the reactions of the stock markets to Trump's confident news last Monday. The Shanghai Composite, the leading index for the Chinese mainland stock exchange, jumped a whopping 5.60 per cent after Trumps tweet. Wall Street, reacting likewise to the relaxation between the US and China, closed with some satisfying consolidation.

However, hopes did not last even a week: On the day the first estimate of US GDP growth in Q4 2018 was published, Trump left Hanoi early and without reaching the much anticipated agreement in the disarmament negotiations with North Korean ruler Kim Jong-un. Still in Vietnam, The US President put a damper on hopes of an end to new punitive tariffs by announcing that he would also break off the negotiations with China.

Legal note:

Prognoses are no reliable indicator for future performance.

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A blog post by APA Finance together with Erste AM Communications.