Flash Economics

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Countries with weak domestic demand would be hit particularly hard by a downturn in global trade

The increase in customs duties in the United States, which has led some countries to raise their tariffs on imports from the United States, will slow growth in the global trade of goods.

This slowdown will be particularly damaging for countries whose domestic demand (consumption, investment) is weak: the Euro zone, Japan and China in particular. Countries with dynamic domestic demand (India and South-East Asia for instance) will be more resilient to the slowdown in global trade.

The United States had buoyant domestic demand until 2024, but all indicators show that by 2025 its domestic demand will have weakened significantly, particularly as a result of fears of inflation and uncertainty over economic policies, and it too will suffer from the weakness in global trade.

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Rising customs duties and a slowdown in the global trade of goods

The scope and amount of the increase in customs duties imposed by the United States on its imports are still uncertain. Tariffs have been increased on steel and aluminium imports, and on all imports from China, but the Trump administration probably intends to make these tariffs more widespread. We have also seen retaliatory measures taken by the Canadians, the Europeans and the Chinese.

This trade war is bound to slow the growth of global trade (**Charts 1A/B, 2).** For the moment, there are no barriers to trading services, except for film production.

Chart 1A
World: Exports of goods (in volume terms, Y/Y as %)

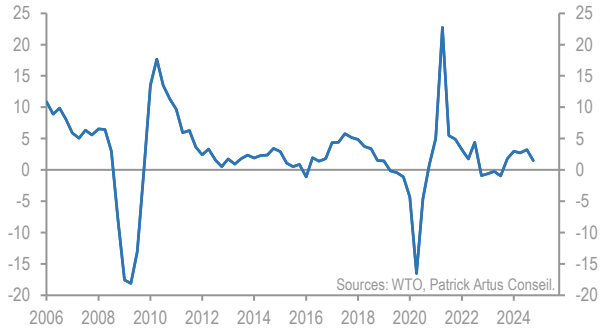


Chart 1B
World: Exports of goods (in volume terms, Y/Y as %)

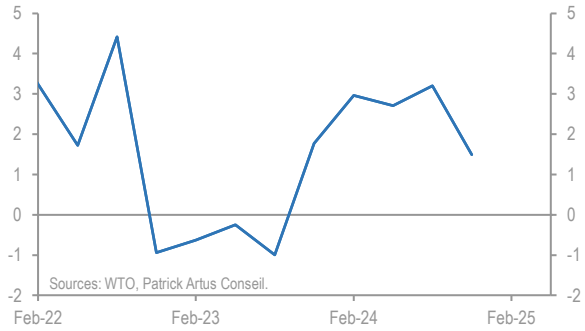
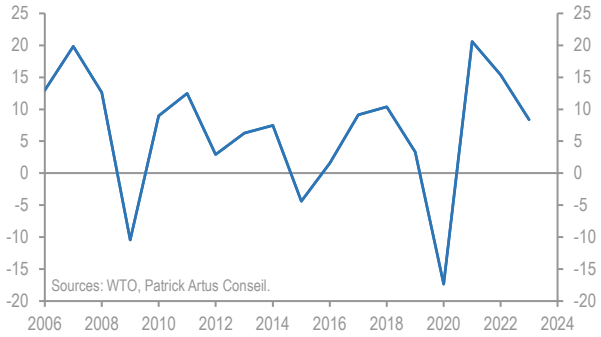


Chart 2
World: Exports of services (in value terms, Y/Y as %)



A slowdown in global trade will be particularly damaging for countries whose domestic demand is not growing

The slowdown in the growth of global trade of goods, which implies a slowdown in the growth of exports, will be particularly damaging for countries whose domestic demand is growing slowly.

Among the major countries, these include Japan, the Euro zone and China.

One can see in those three countries:

- slowing investment growth (**Charts 3A/B**);

Chart 3A
Investment (in volume terms, Y/Y as %)

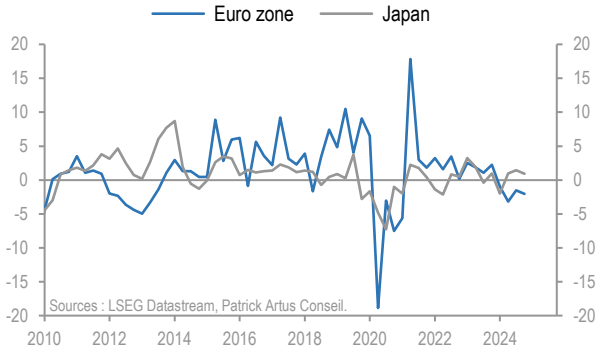
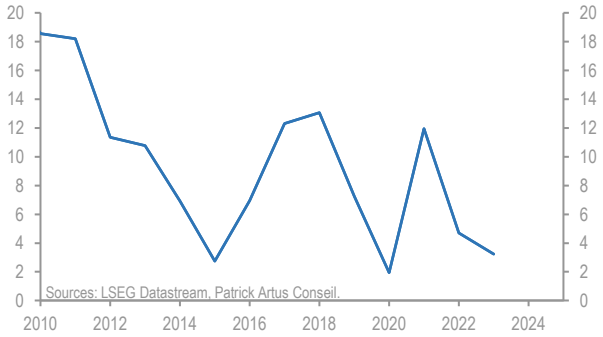
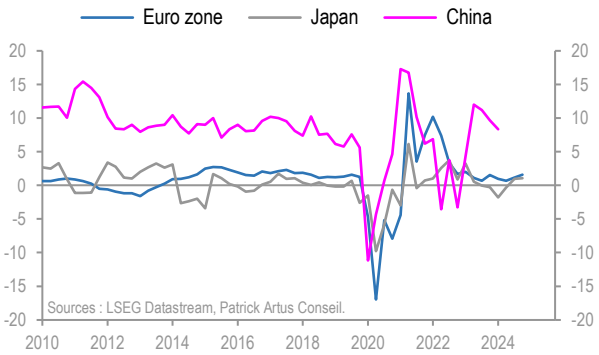


Chart 3B
China: Investment (in value terms, Y/Y as %)



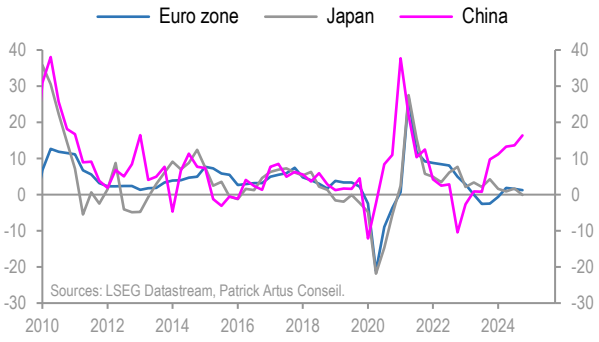
- **slowing growth in consumption** (**Chart 4**).

Chart 4
Household consumption in volume terms (Y/Y as %)



As a result, if exports (**Chart 5**) weaken as the global trade of goods slows, growth will be very weak.

Chart 5
Exports of goods and services
(in volume terms, Y/Y as %)



The slowdown in global trade is less serious for countries with dynamic domestic demand

The contribution of domestic demand to GDP growth can be calculated by looking at GDP growth, export growth and the weight of exports in GDP. **We make this comparison for India and the countries of South-East Asia** (**Charts 6A/B, 7 A/B/C, and 8**).

Chart 6A
Real GDP (Y/Y as %)

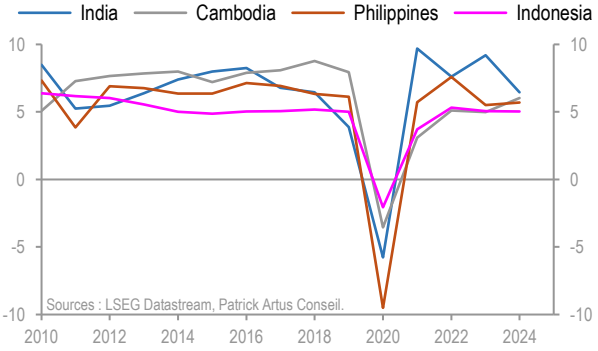


Chart 6B
Real GDP (Y/Y as %)

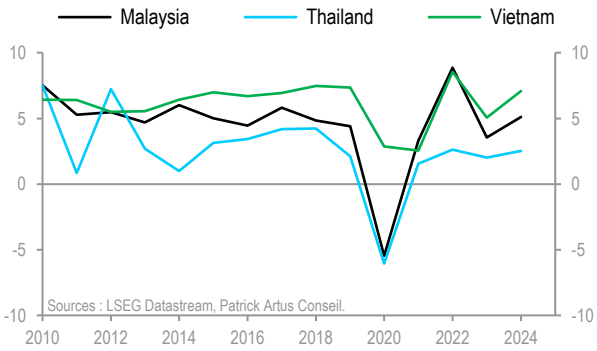


Chart 7A
Exports of goods and services
(in value terms, Y/Y as %)

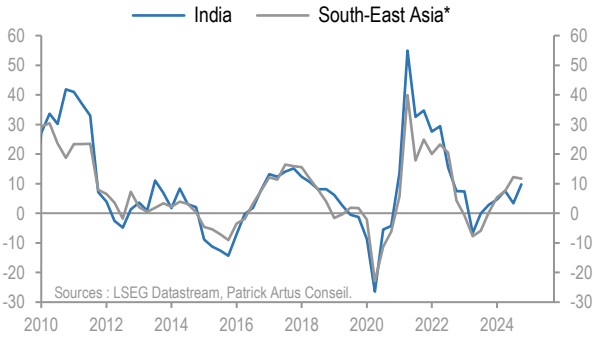
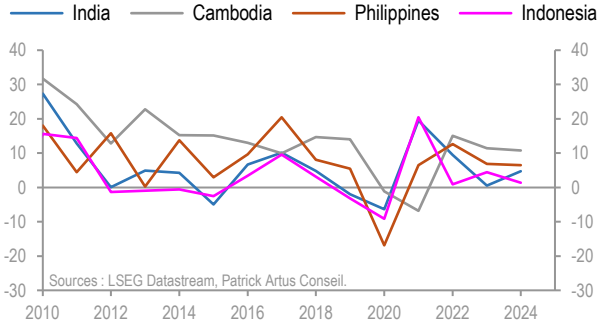


Chart 7B
Exports of goods and services
(in volume terms, Y/Y as %)



* Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Chart 7C
Exports of goods and services
(in volume terms, Y/Y as %)

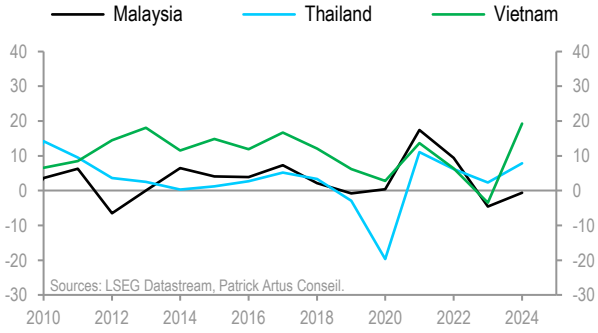
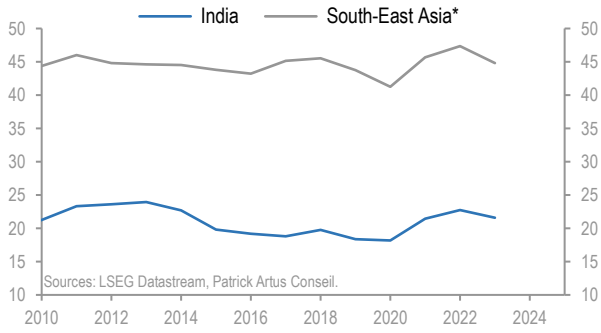


Chart 8
Exports of goods and services
(in volume terms, as % of real GDP)



* Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Adjusted for export growth, GDP growth (which depends on domestic demand) is still 5% in India and 3.5% in the countries of South-East Asia.

Even if export growth were to weaken, India and the countries of South-East Asia would still enjoy strong growth.

The case of the United States

Until the end of 2024, domestic demand in the United States was growing strongly, driven in particular by household consumption (**Chart 9**).

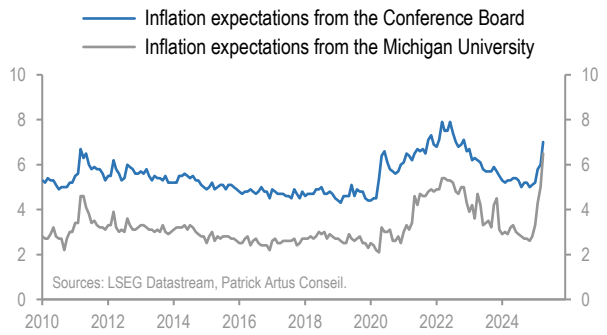
Chart 9
United States : Investment of corporations and household consumption (Y/Y as %)



However, we can expect a significant slowdown in US domestic demand from 2025 onwards:

- with fears of inflation (**Chart 10**);

Chart 10
United States: Consumer's inflation expectations for the year ahead (as %,)



- with uncertainty over economic policies.

If growth in global trade weakens, the United States will also suffer a penalising slowdown in GDP growth.

Summary: only countries with dynamic domestic demand will suffer little from changes in US trade policy

US trade policy (the introduction of tariffs) is very likely to weaken growth in global trade and in the exports of individual countries.

This trend will be particularly serious for countries with weak growth in domestic demand (Japan, the Euro zone, China and, from 2025, the United States), but will be less damaging for countries with strong growth in domestic demand (India, South-East Asian countries).

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