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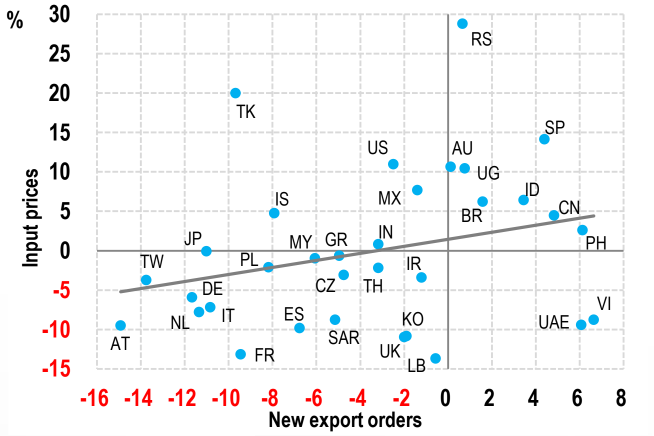
The headwind of tariff uncertainty

■ Worries about tariff increases are a headwind to growth because of the uncertainty about the outcome and its timing ■ Global value chains complicate the analysis ■ Tariffs increase input prices in the importing country and weigh on order books in the exporting country ■ Since the start of the year, both input prices and export orders have weakened in many countries. It's probably too early to look for a link with tariff measures and tariff uncertainty

When two parties are in a dispute this causes uncertainty which increases with the number of stakeholders involved. When an unlisted company negotiates with its supplier, which is also unlisted, to squeeze out better terms, the immediate impact is negligible. When both companies are listed on a stock exchange the supplier's share price may decline because of concern about losing a client and the client's share price may go down if the supplier has a lot of negotiation power.

Tariff disputes between countries involve a huge number of stakeholders, in particular in a world of very complex global value chains: negotiations may be bilateral but the reality is that production chains are global. In such an environment, ever increasing uncertainty acts as a headwind. The World Bank is sounding the alarm bell on this in its latest Global Economic Prospects, quite aptly titled "*The turning of the tide?*". It shows how an increase in economic policy uncertainty in the US weighs on growth in developed economies but even more so in developing economies. At this juncture, policy uncertainty is caused by trade war fears. Developing economies are particularly exposed because of their role in global value chains and because a lot of them are commodity exporters. To the extent that uncertainty clouds the growth outlook commodity prices may decline thereby hitting the exporting countries. To complicate matters, trade-related uncertainty is not only driven by not knowing the outcome nor its timing but also by the sheer complexity and, to the outsider, the opacity, which follows from the global interconnectedness of production. From a macro perspective, certain indicators are useful when gauging the impact of tariff uncertainty and tariff measures: growth of international trade, import prices, domestic inflation for certain product groups. Sentiment indicators are important as well: when tariffs are raised input prices increase in the importing country and order books suffer in the exporting country. The chart shows that since the start of the year, the assessment of export orders has deteriorated in a majority of countries, but this can be driven by a global cooling of growth momentum, rather than by protectionist fears, all the more so considering that sentiment on input prices has also weakened in many countries.

PMI MANUFACTURING MAY 2018: CHANGE FROM JANUARY 2018



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Source: Markit, BNP Paribas.

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