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GLOBAL ECONOMICS UPDATE

The implications of a collapse in US/China trade talks

- **We think that the direct effects of President Trump's threatened tariff hikes could reduce Chinese GDP by up to 0.4% and that the associated retaliation would have only a marginal direct impact on the US. The effects on business confidence and financial markets around the world could be more significant, potentially adding to reasons for renewed policy loosening.**

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- **How have policymakers responded?** In theory, if all else were unchanged the increase in tariffs would amount to a small fiscal tightening in China and the US. But both governments have avoided this by spending the proceeds on aid for the most affected parties. The US approved a package of \$12bn for farmers last year and there were unconfirmed stories of the Chinese government rebating tariff revenues to affected firms. Central banks have also responded. Not only the Fed but also the ECB and the Bank of Japan have explicitly cited concerns over trade tensions as a reason for adopting a more dovish stance.