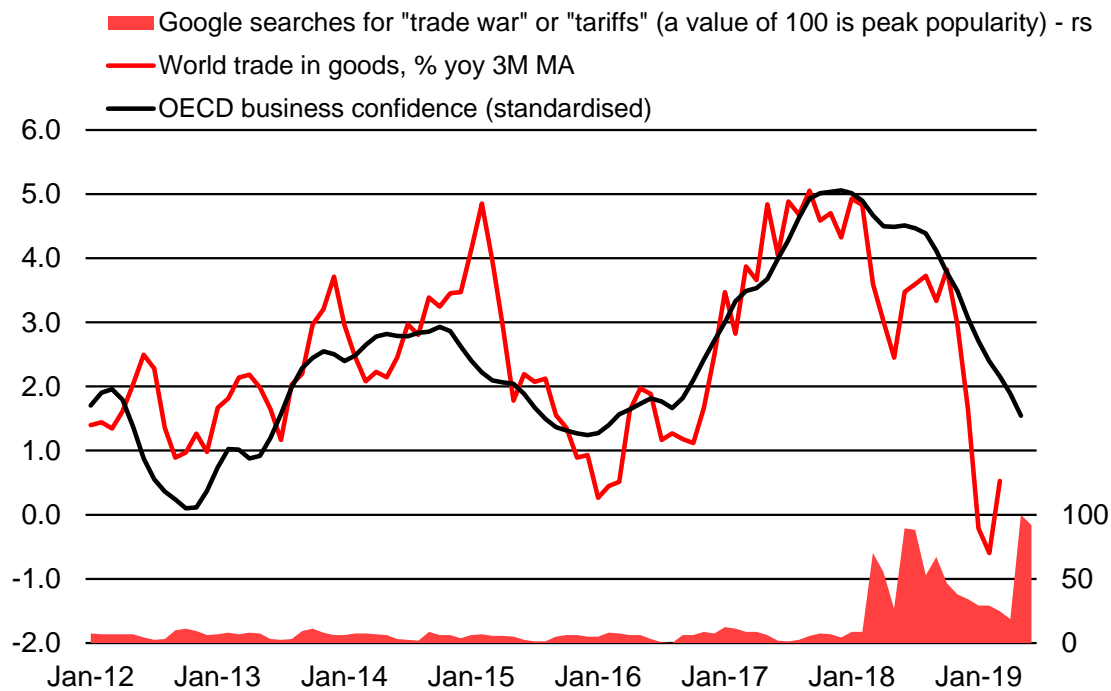


Uncertainty is bad for trade



Source: CPB Netherlands, Google Trends, OECD, UniCredit Research

- Uncertainty causes businesses to defer trade and investment. Our *Chart of the Week* shows that global trade growth is closely related to business confidence. Business confidence (measured here by the OECD industrial confidence indicator and standardized to match the mean and variance of global trade growth) fell further in May. The data, which was released yesterday, is published two months ahead of the global trade data.
- The downward trend in business confidence started around the turn of 2018 and has coincided with US trade tensions. The latter is captured in the chart by Google Trends worldwide search intensity for either "trade war" or "tariffs".
- The G20 meeting at the end of this month is shaping up to be a milestone for US-China trade talks. A quick agreement seems out of the question, but our baseline is that the two sides agree to another round of trade talks and tensions ease. The big downside risk is that trade talks fail completely and the US imposes 25% tariffs on the remaining USD 300bn of US goods imports from China, which would likely have a significant negative impact on global business sentiment, trade and output.

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