

GLOBAL TURMOIL, TARIFFS AND IMPACTS ON THE AUSTRALIAN ECONOMY

PRESENTATION TO A WEBINAR HOSTED BY
THE FREIGHT & TRADE ALLIANCE

29TH APRIL 2025

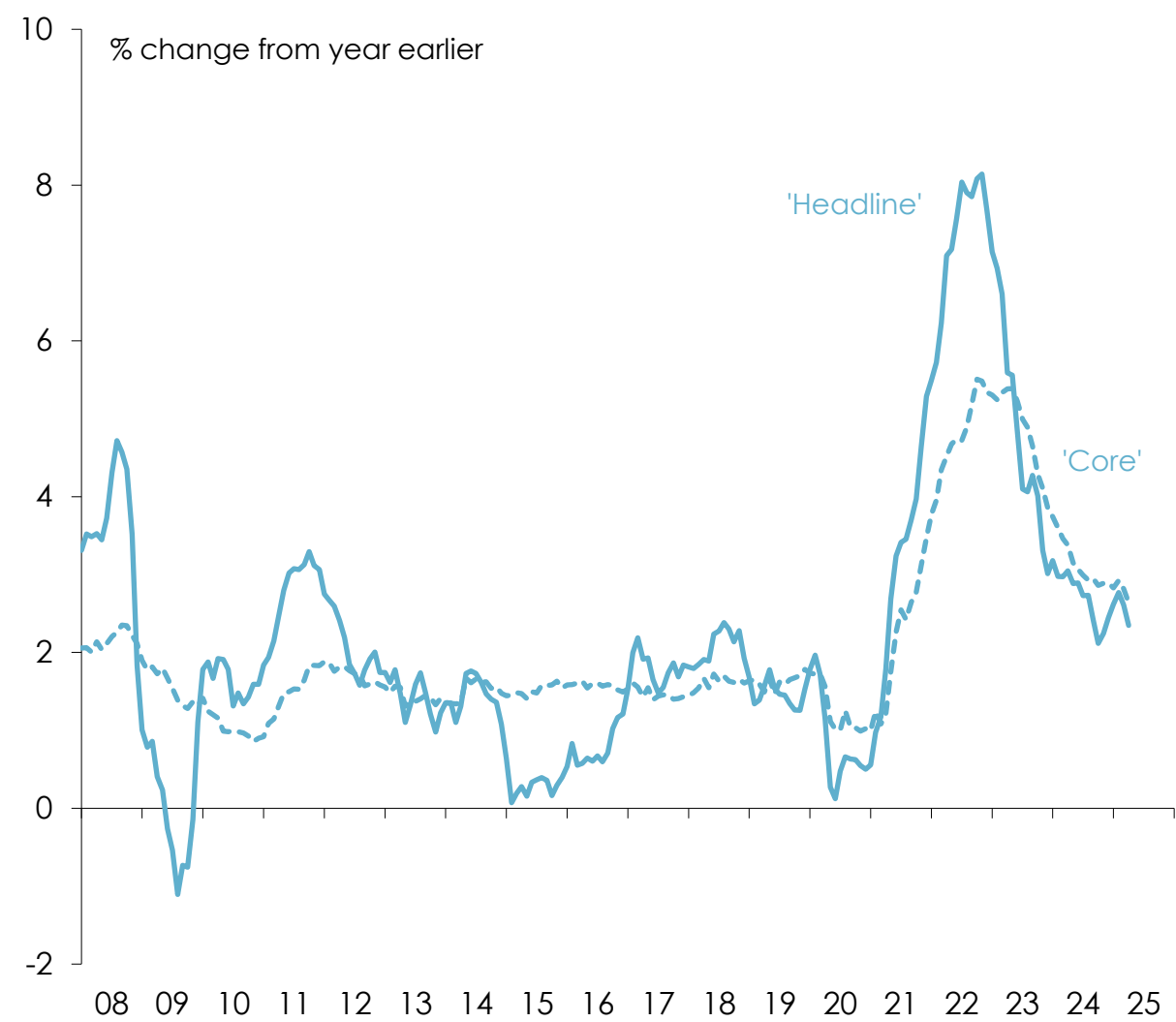
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

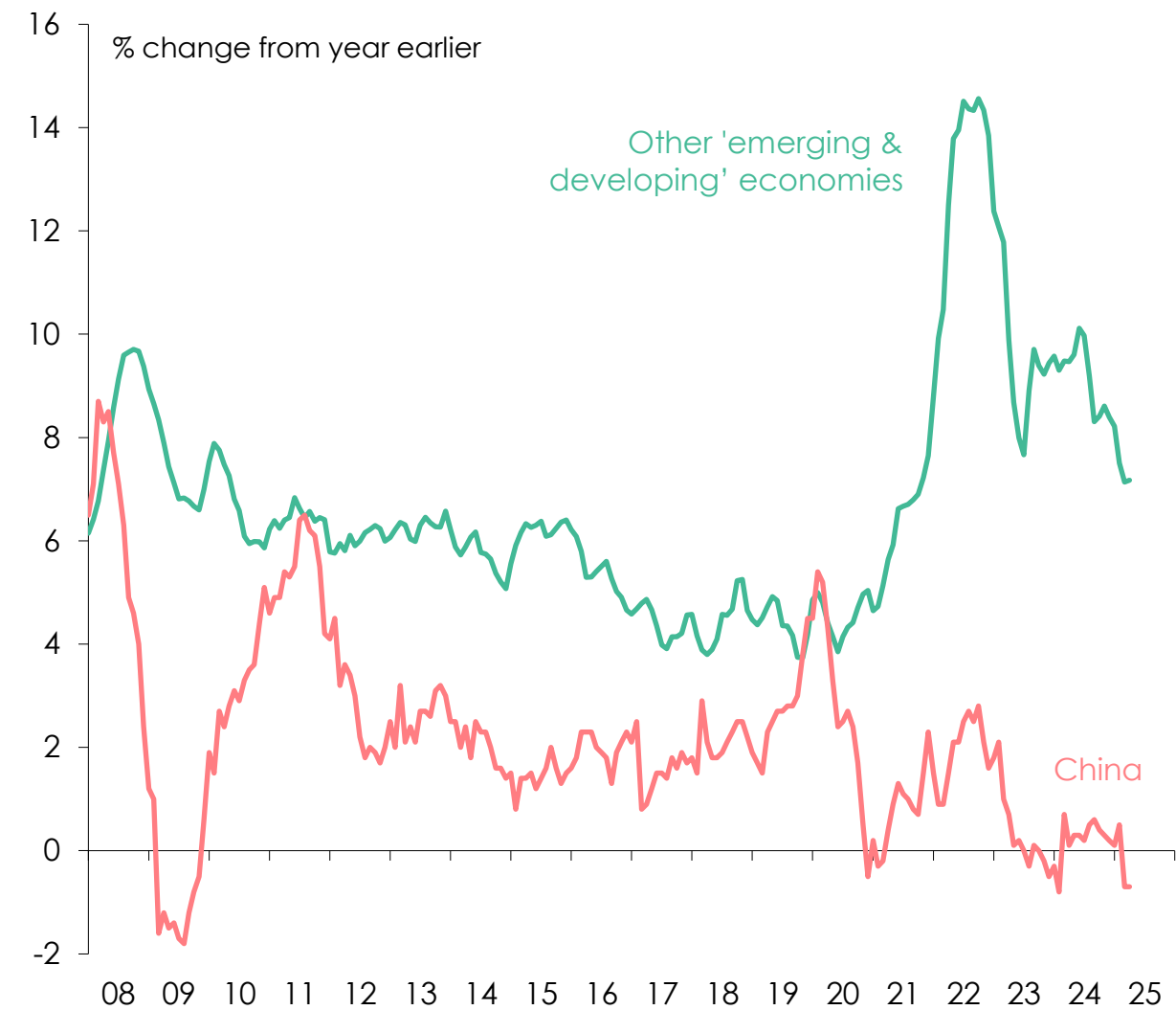
The world economy

Inflation has eased in 'advanced' economies but remains above target; it has been more persistent in 'emerging' economies (apart from China)

Inflation – 'advanced' economies



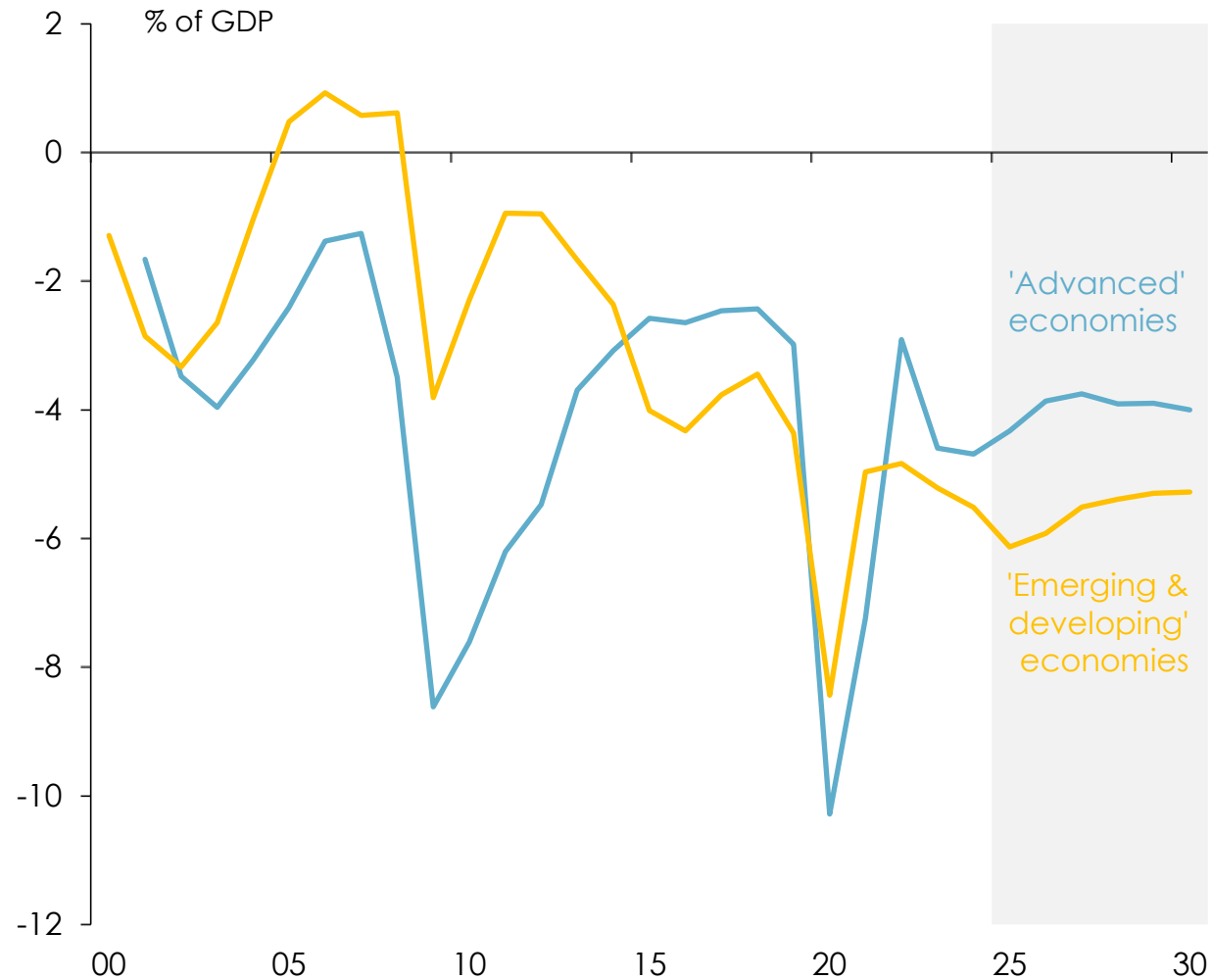
Inflation – 'emerging & developing' economies



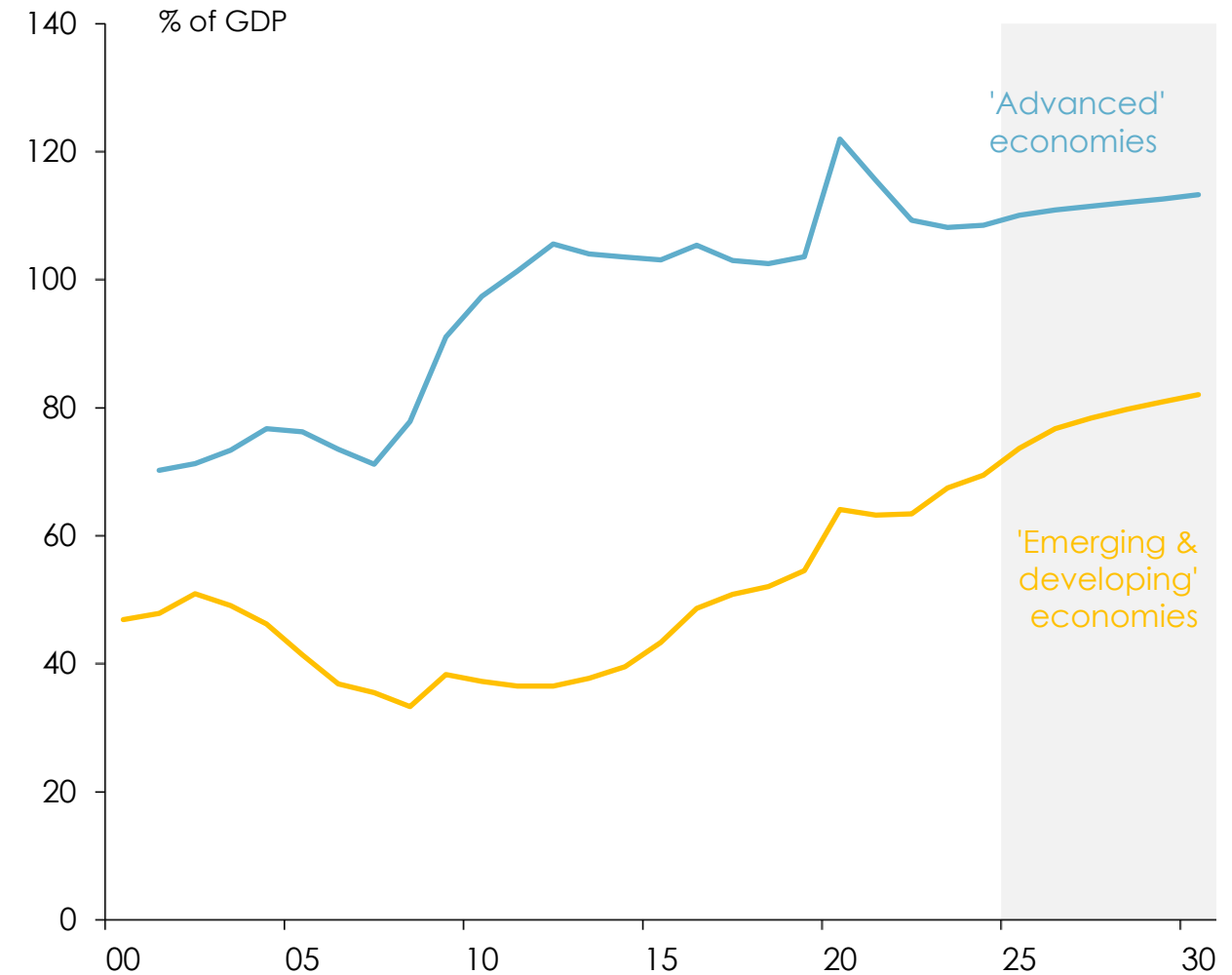
Note: 'Advanced' economies are the US, euro area, Japan, UK, Canada, Australia, Sweden, Norway, Switzerland, Korea, Taiwan, Hong Kong and Singapore; 'emerging and developing' economies are China, India, Indonesia, Philippines, Thailand, Malaysia, Russia, Türkiye, Poland, Hungary, South Africa, Nigeria, Kenya, Brazil, Mexico, Colombia, Peru and Chile, in each case weighted by 2023 GDP in US\$ at market exchange rates. Sources: national statistical agencies, IMF, Corinna.

There is no appetite, anywhere, for reining in government deficits and debt

General government 'net lending' (surpluses/deficits)

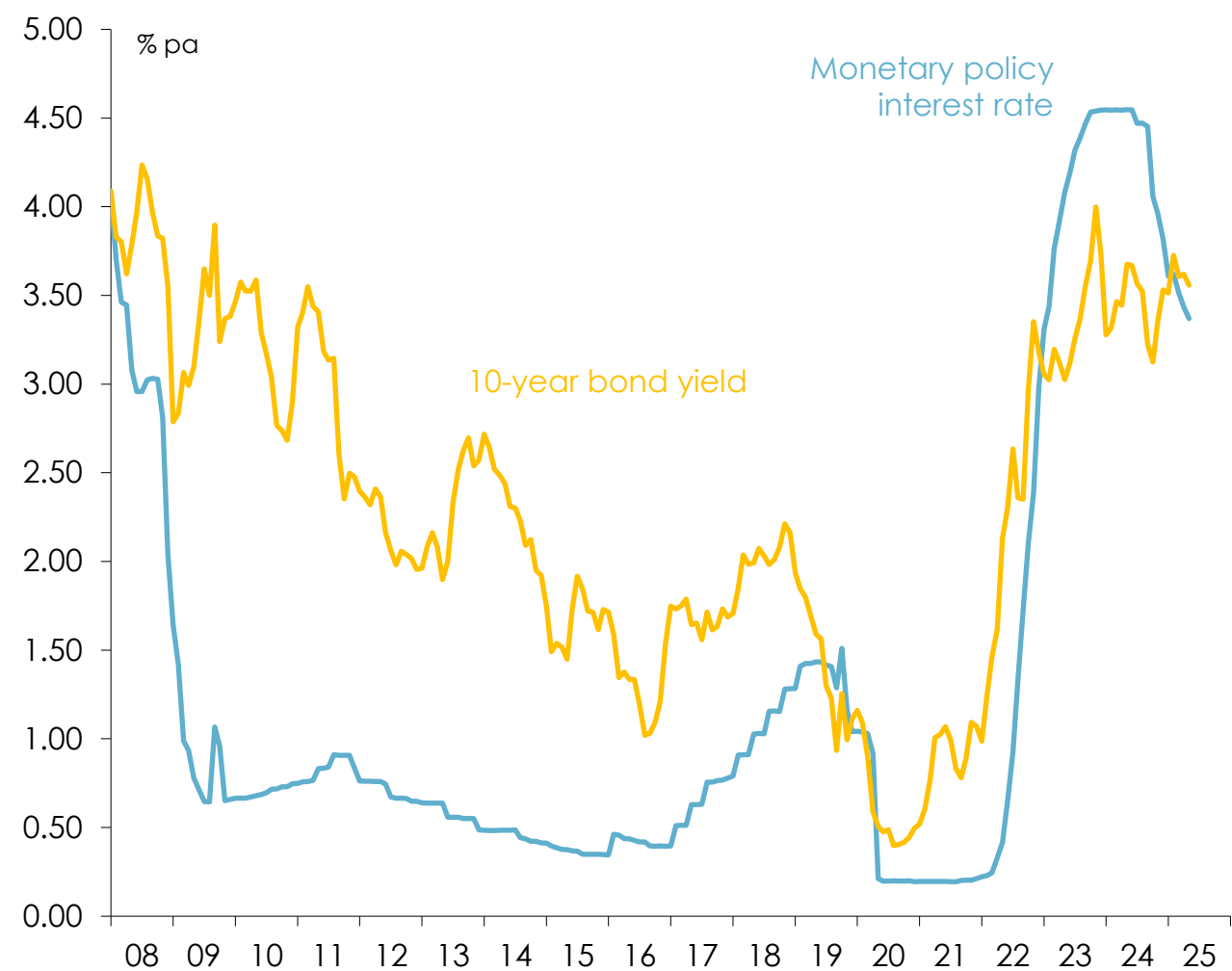


General government gross debt

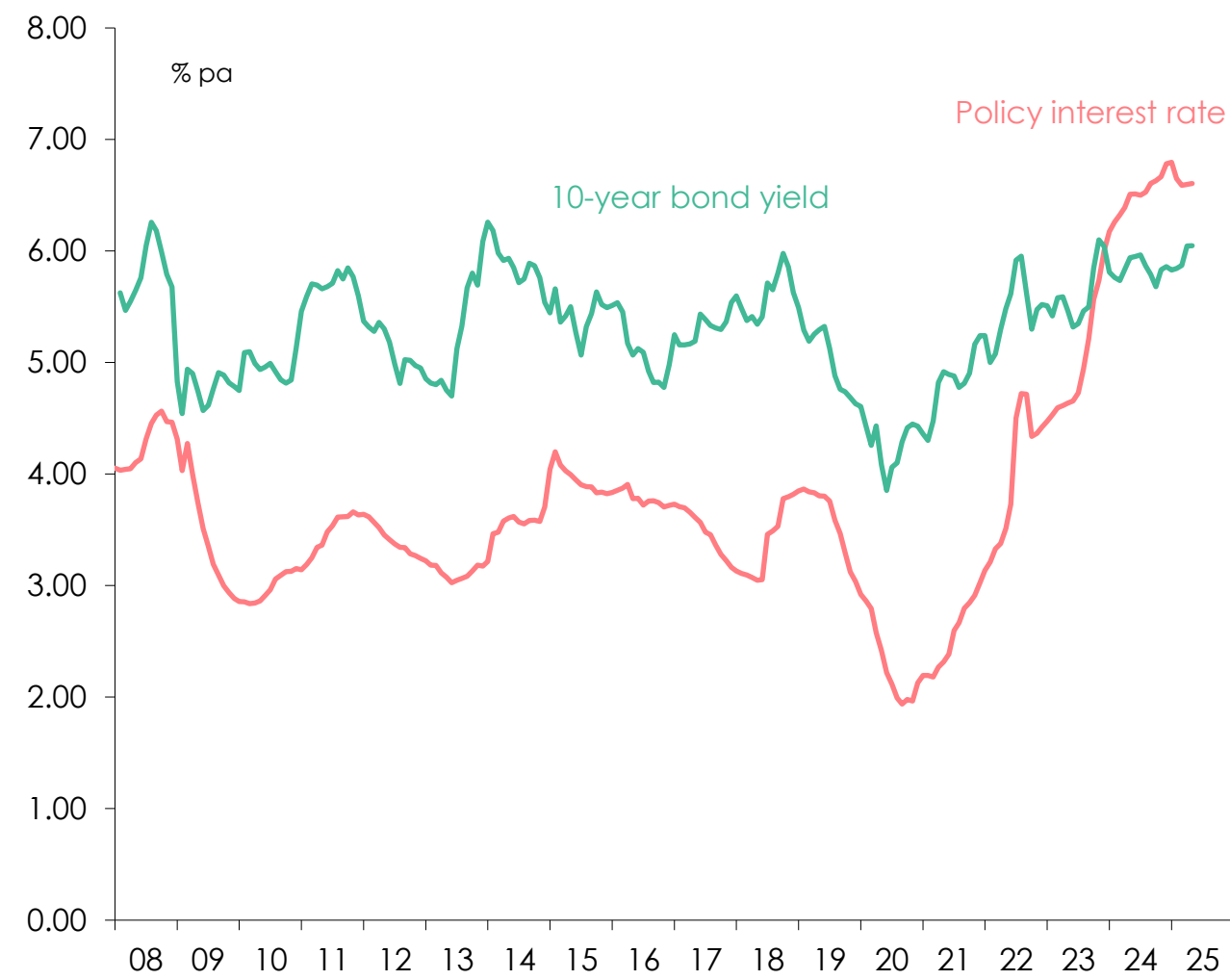


Stubborn inflation and continued government deficits and debt will likely put a floor under global interest rates, above average 2010-2019 levels

Interest rates – ‘advanced’ economies



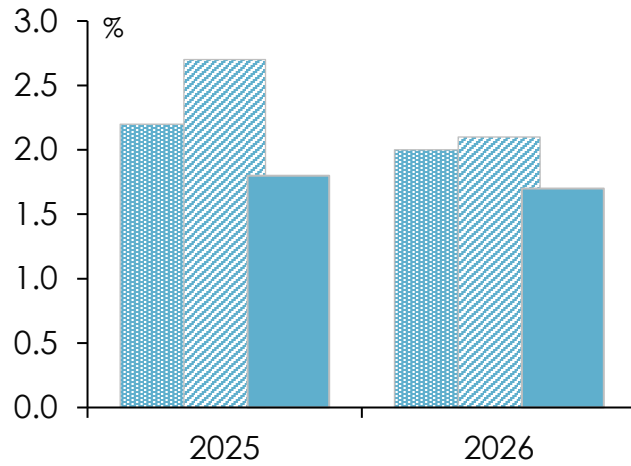
Interest rates – ‘emerging & developing’ economies



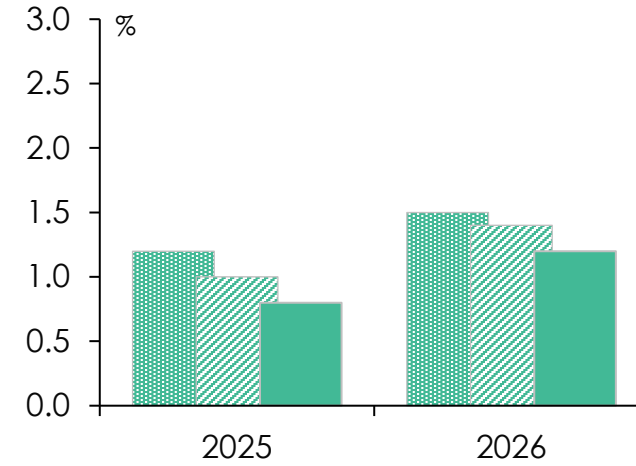
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The IMF has revised down its forecasts of economic growth, and revised up its forecasts for inflation, as a result of heightened uncertainty

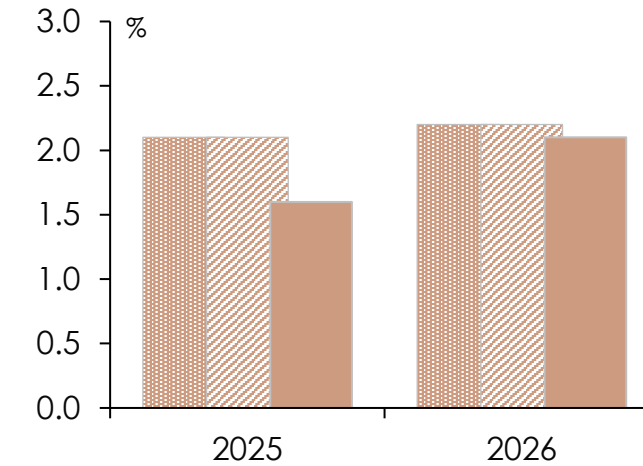
US real GDP



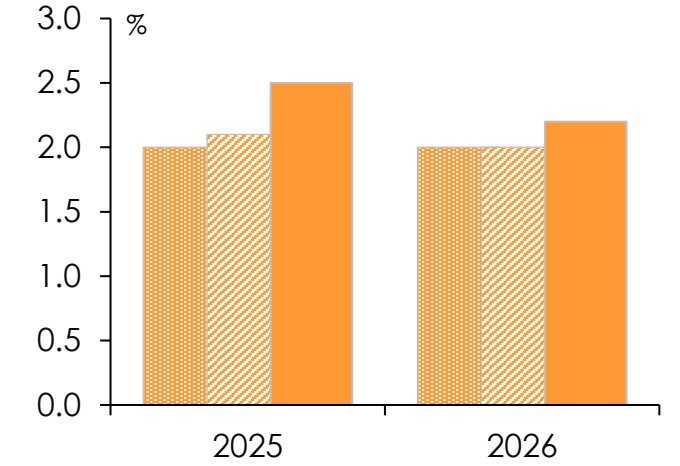
Euro area real GDP



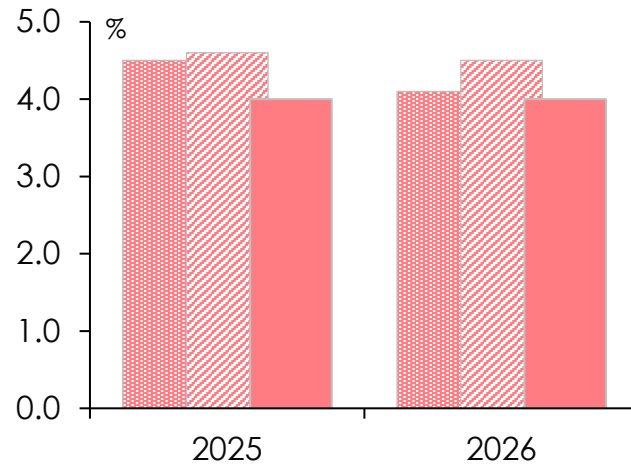
Australia real GDP



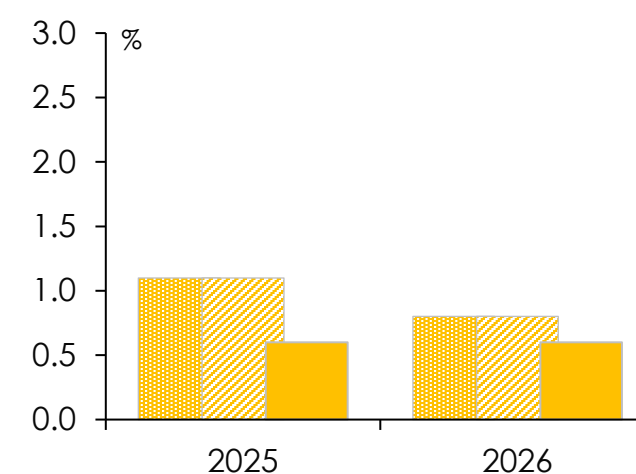
Advanced economies inflation



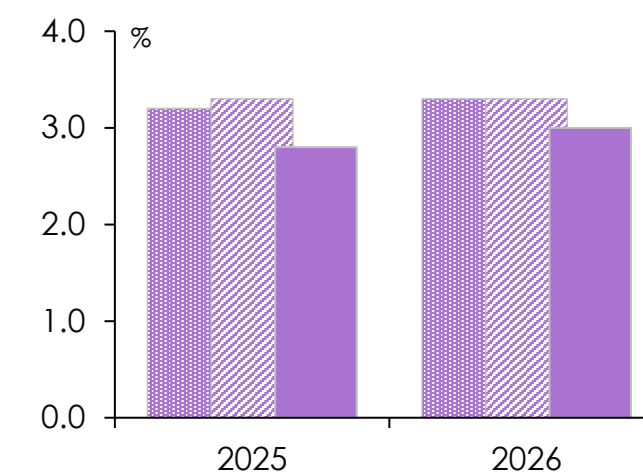
China real GDP



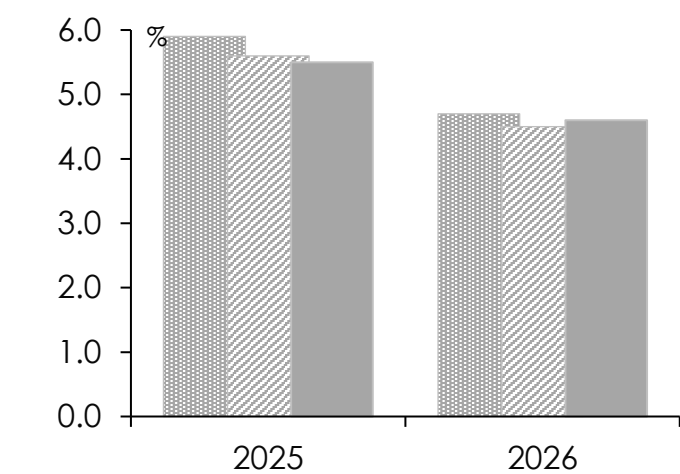
Japan real GDP



World real GDP



Emerging economies inflation



October 2024



January 2025

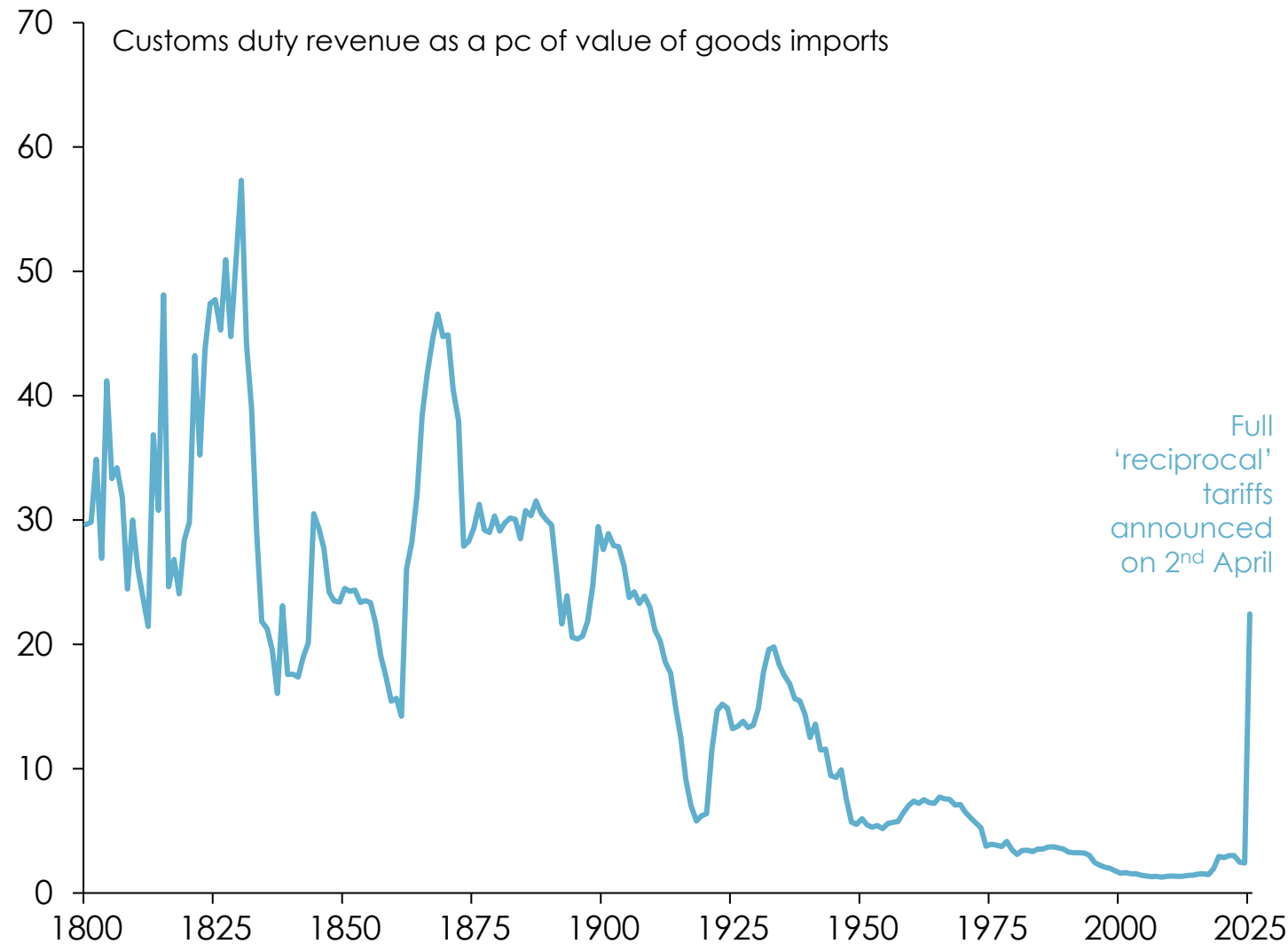


April 2025

The Economic Consequences of Mr Trump

Trump's tariff proposals – if implemented in full – would raise the average level of US tariffs to their highest since 1909

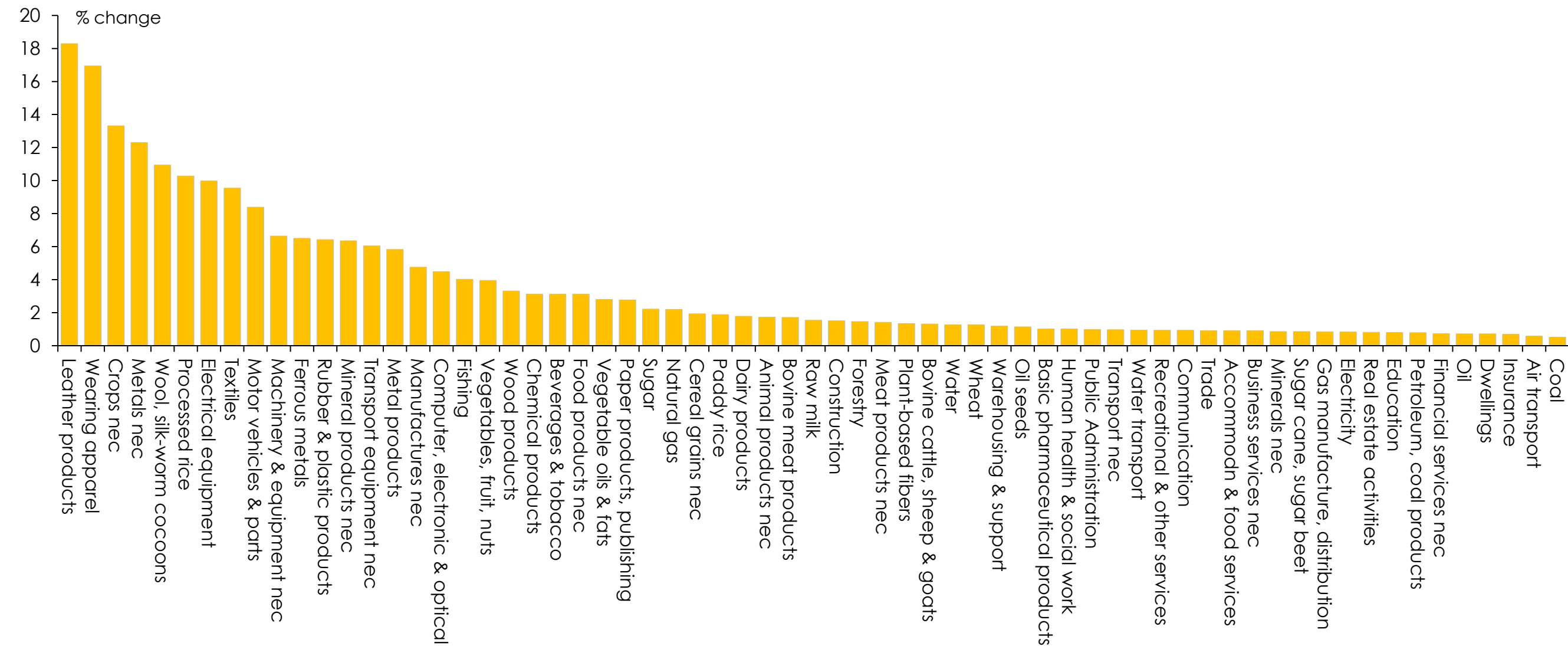
US tariffs



- ❑ The 'reciprocal tariffs' announced by US President Donald Trump on 2nd April will, together with the other tariff increases imposed since his inauguration, lift the average level of US tariffs to 22½%
 - the highest level since 1909
 - higher even than the notorious 'Smoot Hawley' tariff of 1930 which helped put the 'great' into the Great Depression
- ❑ Tariff increases enacted and implemented this year will raise consumer prices by 2.3%
 - costing households an average \$3,800 each
- ❑ The tariff increases will reduce US real GDP by 0.9 pc pt in 2025 and a further 0.1 pc pt in 2026
 - and by about 0.6% in the long run
- ❑ The tariffs will raise about US\$2.49 trn over the 10 years to 2035 (or about \$250bn pa)
 - that compares with budget deficits expected to average \$2.2 trn pa over the next 10 years

The tariffs will have significant effects on the prices of a wide range of goods purchased by American consumers

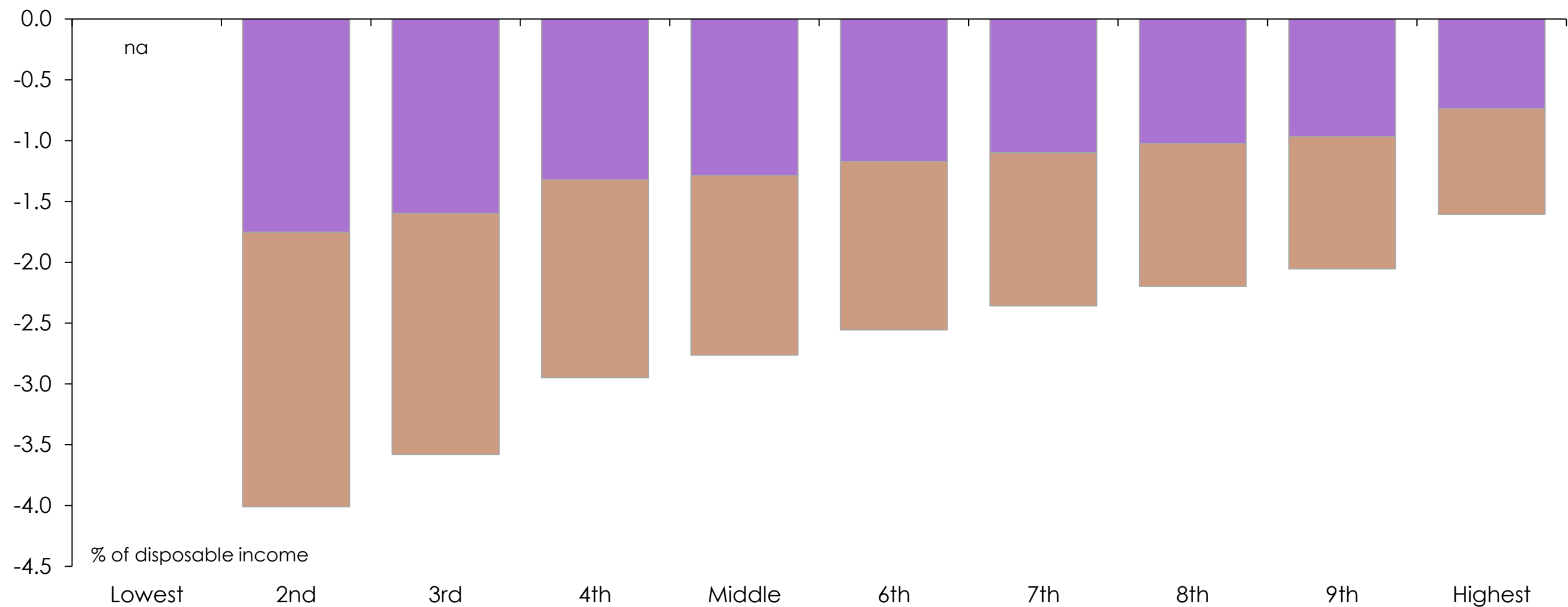
Impact of tariffs on prices, by item



Note: Chart shows the weighted average of price increases for both imported and domestically produced goods resulting from all tariffs announced since 20th January 2025.
Source: Yale Budget Lab, [Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2](#), April 2025.

Those price increases will have a much greater adverse impact on lower-income households than higher-income ones

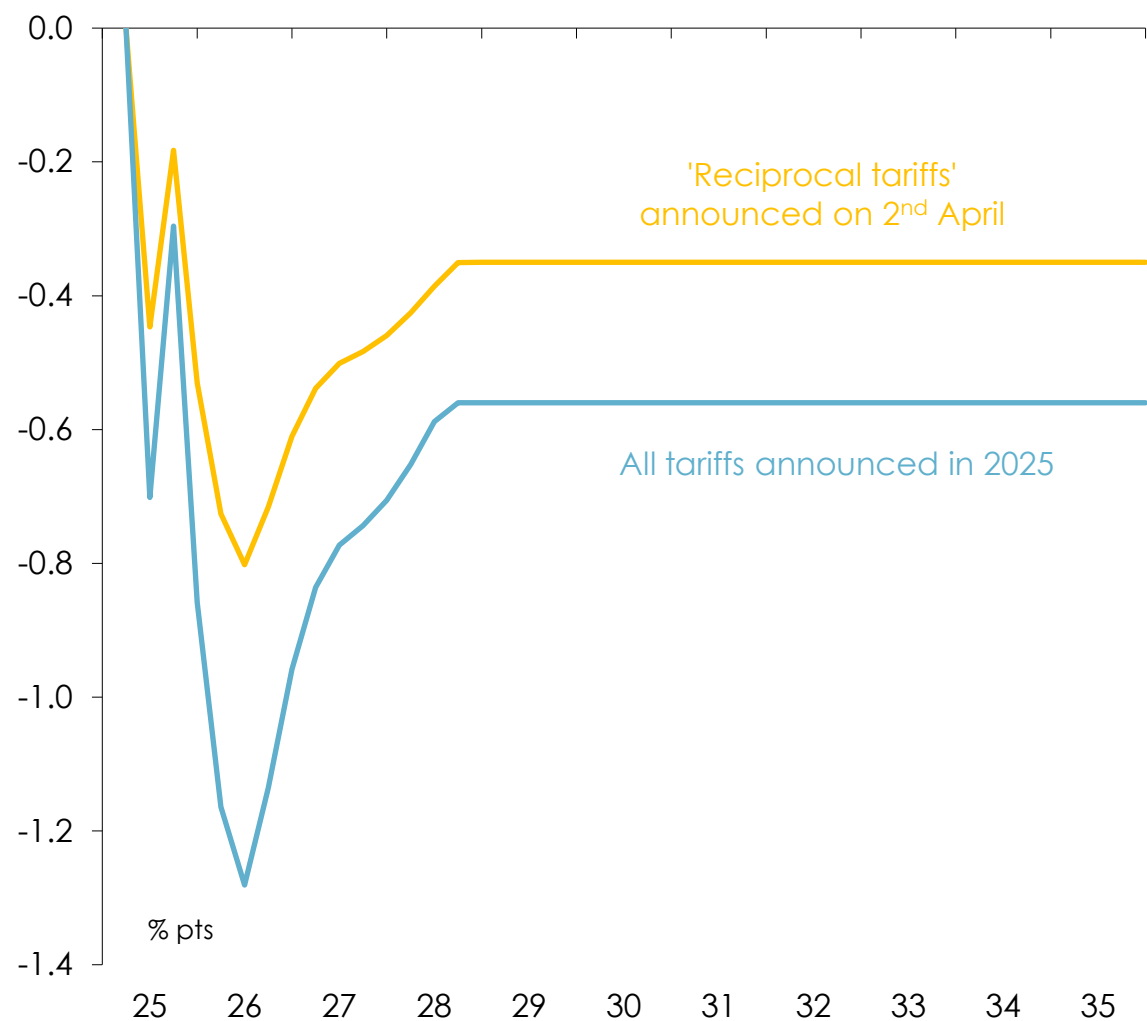
Impact of tariffs on household disposable income, by income decile



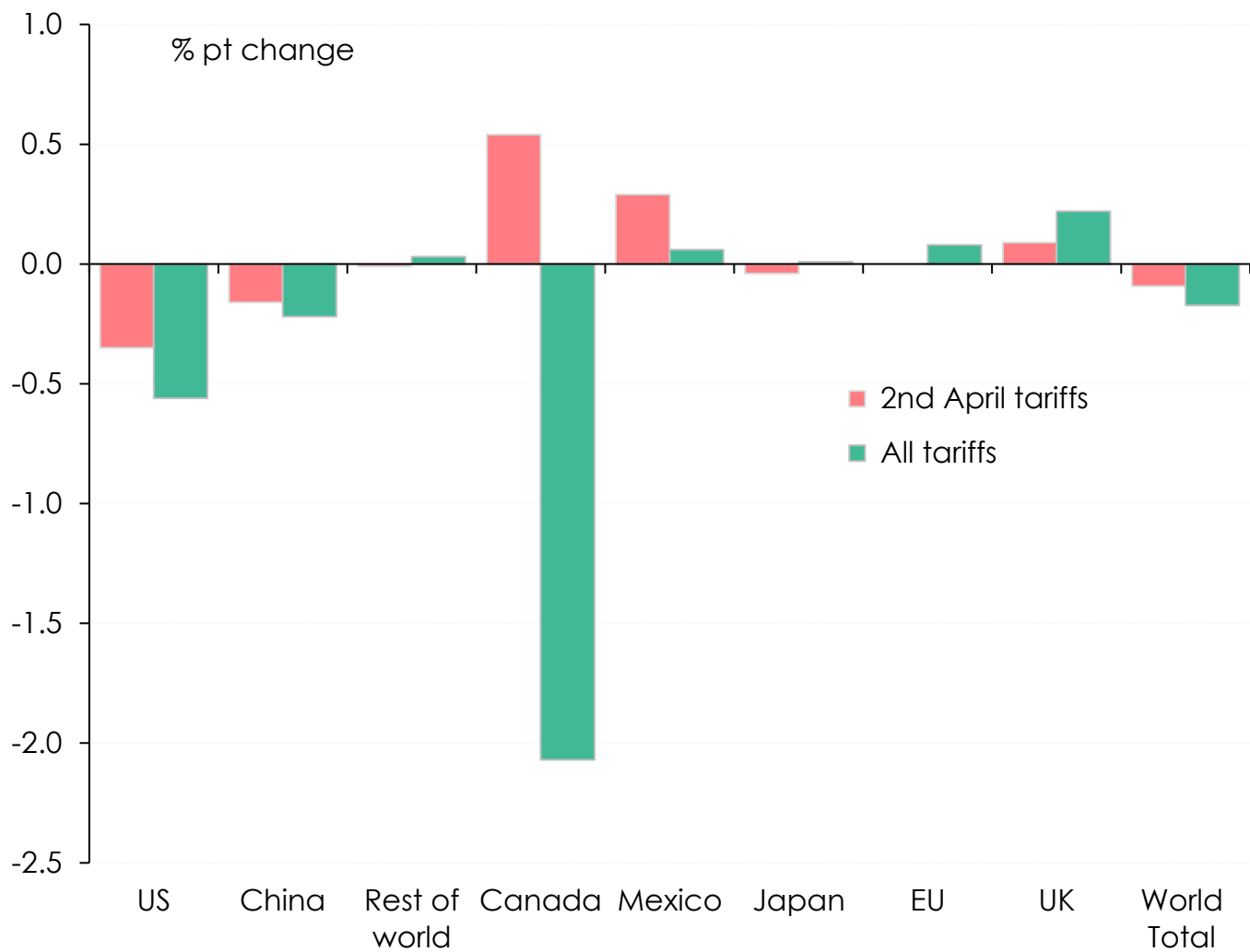
Note: Insufficient data to determine the impact on households in the lowest income decile.
Source: Yale Budget Lab, [Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2](#), April 2025.

The tariffs will result in weaker economic growth in the United States and in most other trading partners

Impact of tariffs on US real GDP



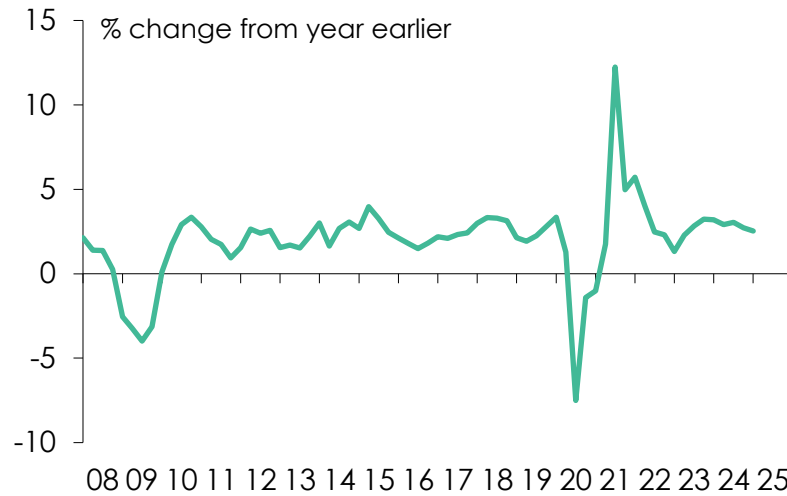
Long-run impact of tariffs on real GDP



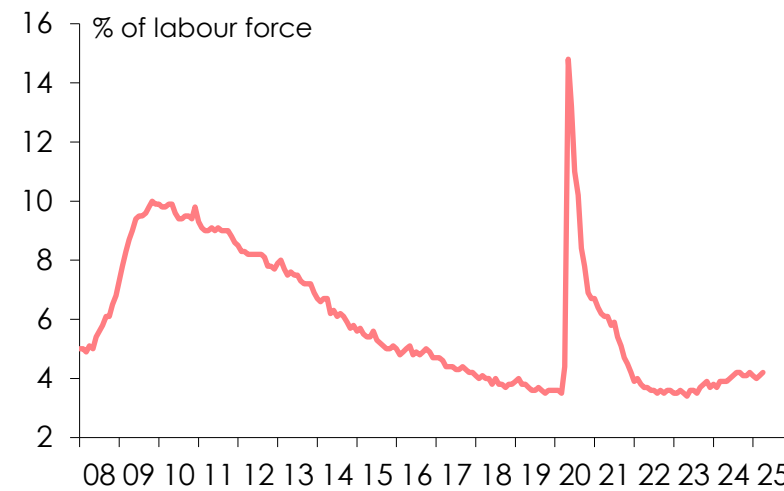
Note: Canada and Mexico were not affected by the 2nd April 'reciprocal' tariffs because they had already been subjected to 25% tariffs announced in February and March.
Source: Yale Budget Lab, [Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2](#), April 2025.

Donald Trump inherited an economy that in most respects was doing very well

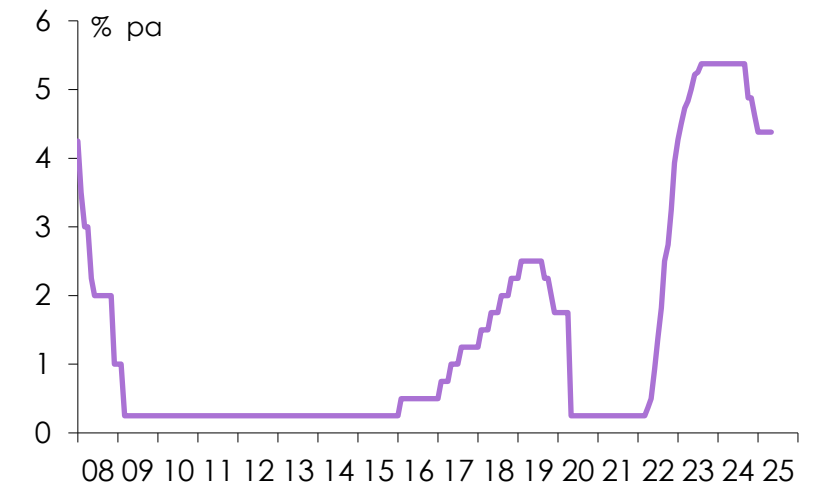
Real GDP growth



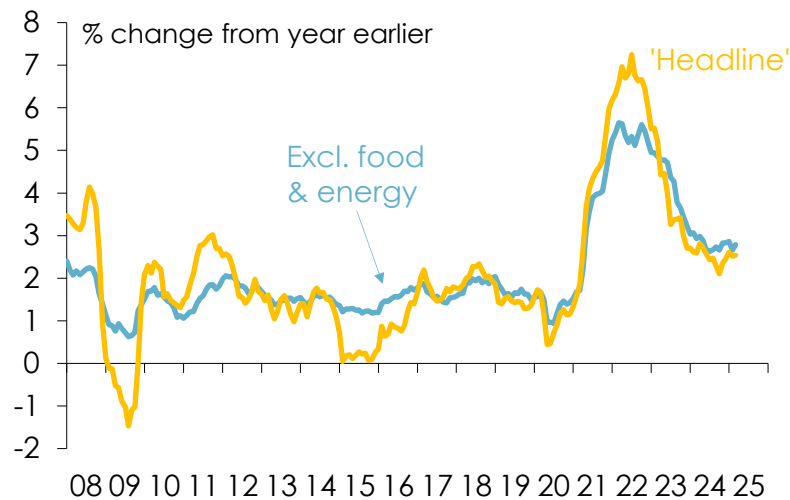
Unemployment rate



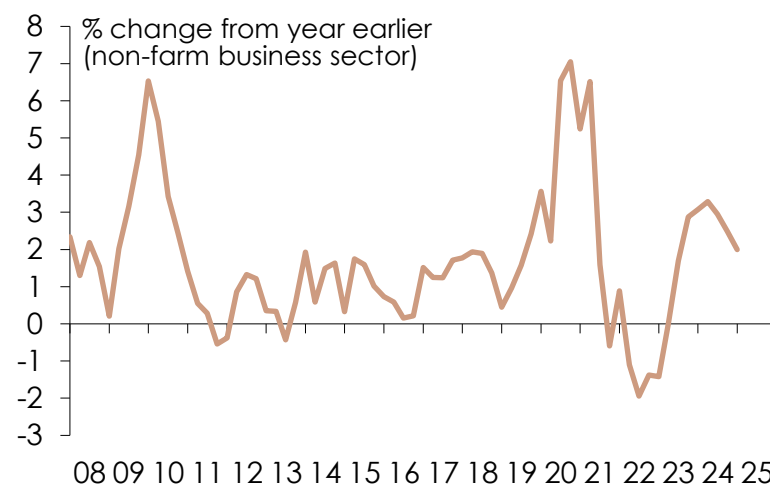
Fed funds rate



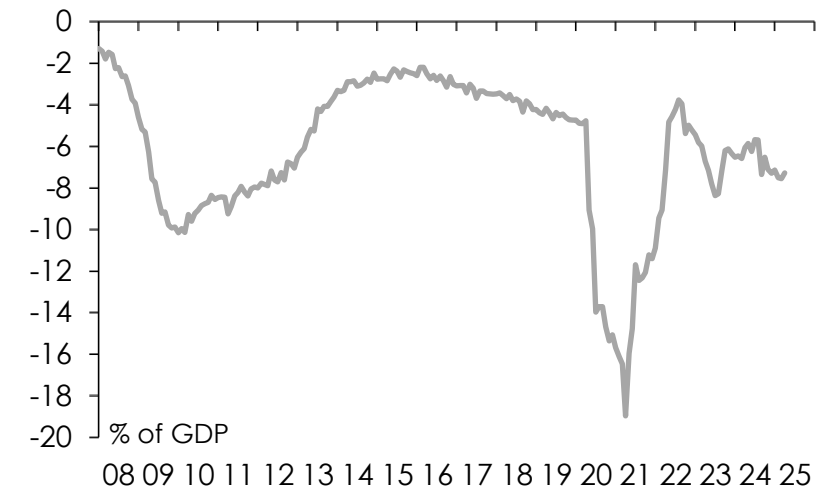
Inflation



Labour productivity growth



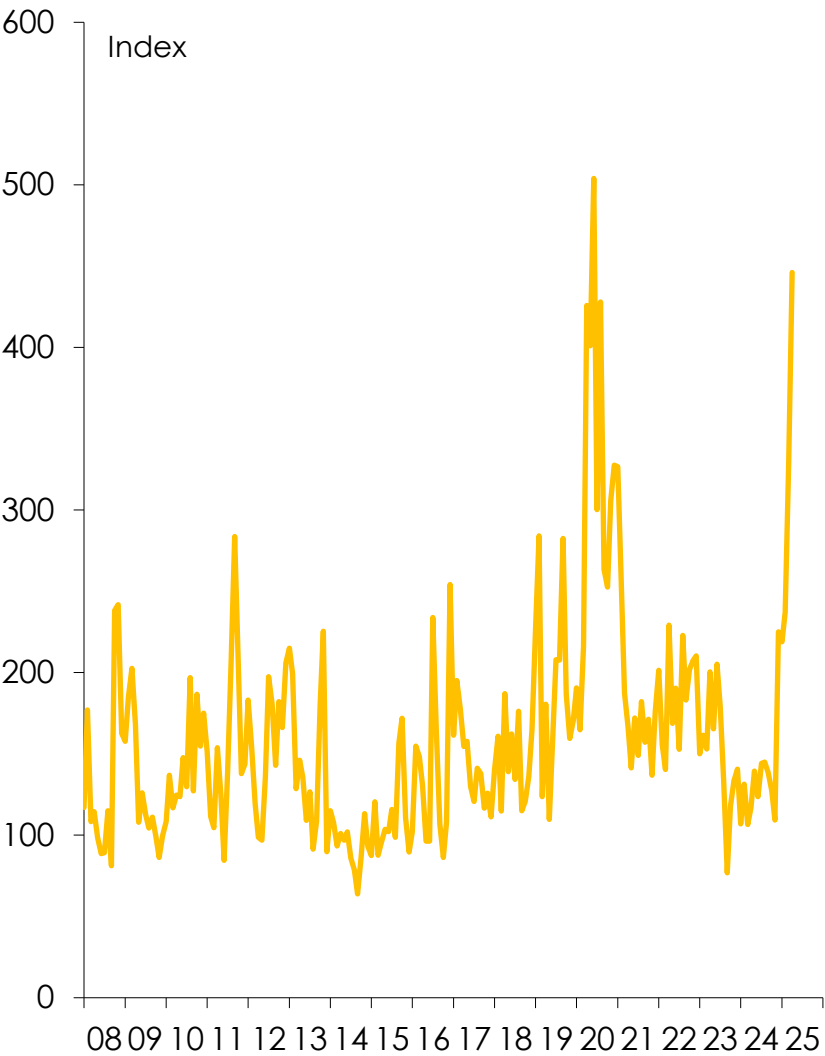
Federal budget deficit



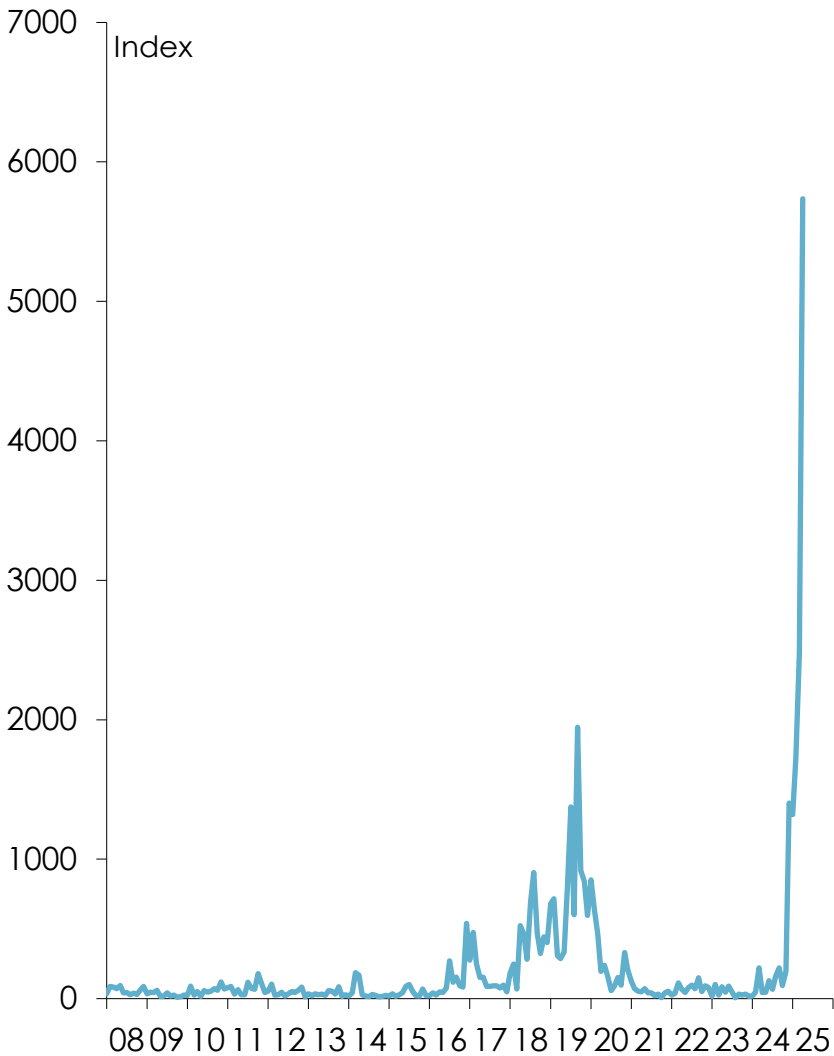
Note: Inflation measure is the implicit price deflator of personal consumption expenditure. Sources: [US Bureau of Economic Analysis](#); [US Bureau of Labor Statistics](#); [US Federal Reserve](#); and [US Treasury](#).

Uncertainty about US economy policy is pervasive – and while a lot of that is about trade, it's not *all* about trade

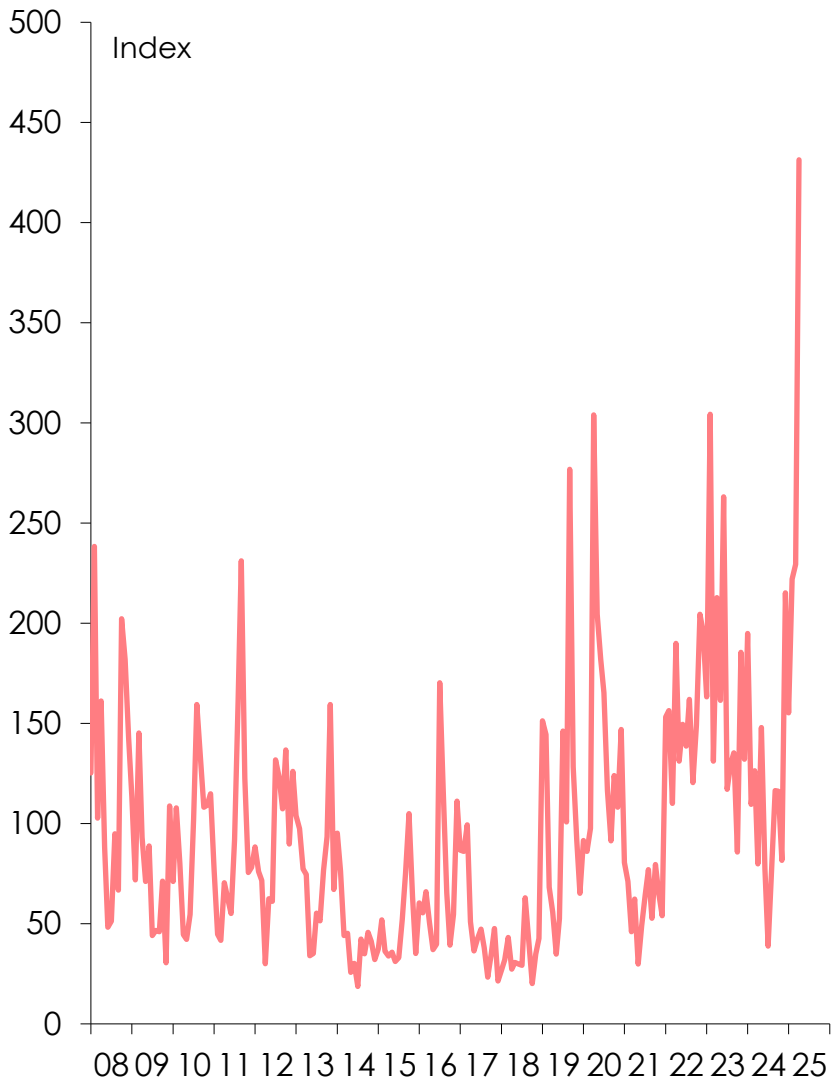
US economic policy uncertainty



US trade policy uncertainty



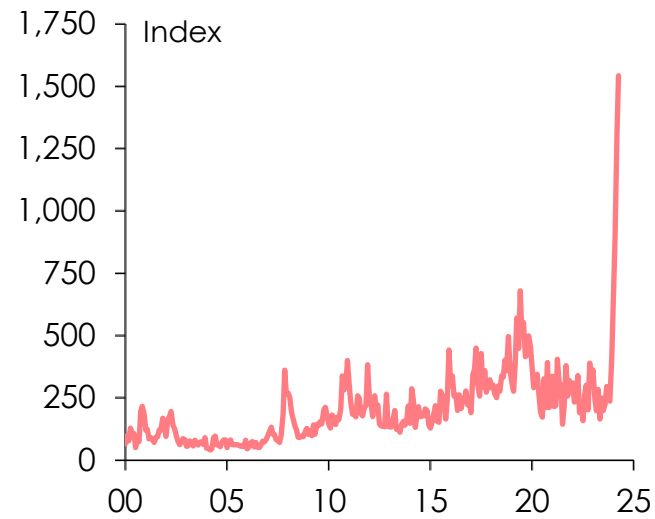
US monetary policy uncertainty



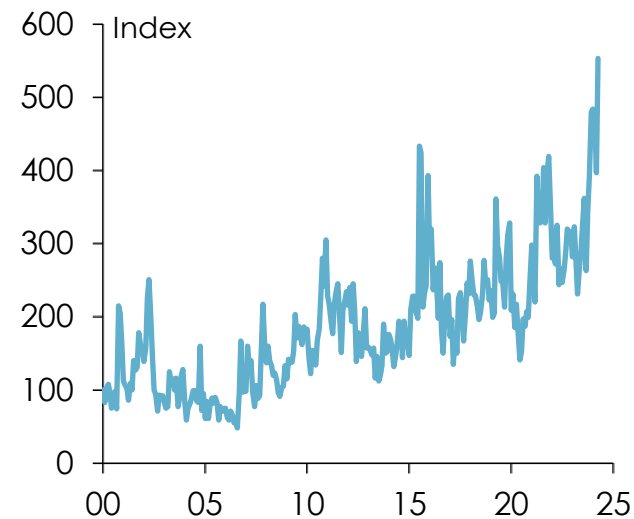
Note: The Economic Policy Uncertainty Index is an index of search results from 10 US large newspapers for articles search for articles containing the term 'uncertainty' or 'uncertain', the terms 'economic' or 'economy' and one or more of the following terms: 'congress', 'legislation', 'white house', 'regulation', 'federal reserve', or 'deficit'.
Source: Dario Caldara and Matteo Iacoviello, [US Monthly Economic Policy Uncertainty Index](#).

Uncertainty about US economic and trade policies – and reactions by other countries – is pervasive around the world

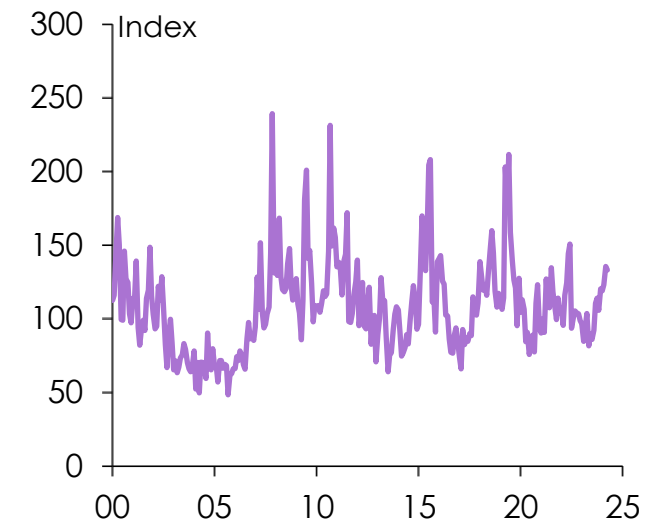
Canada



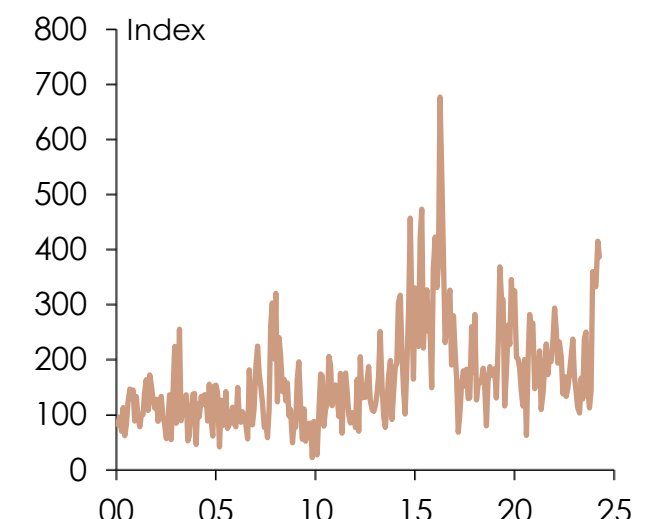
Europe



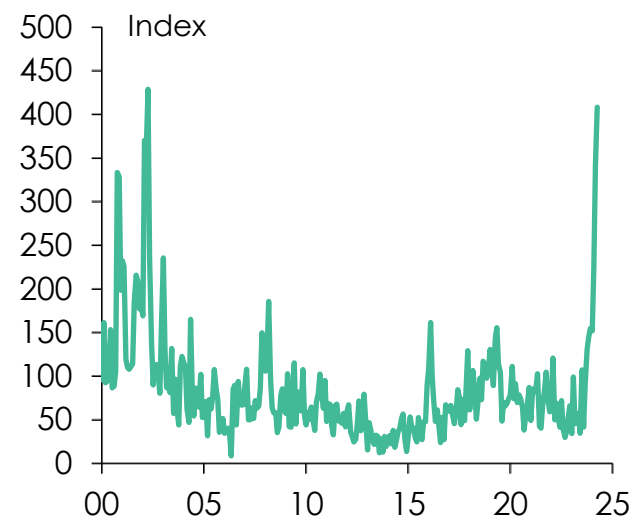
Japan



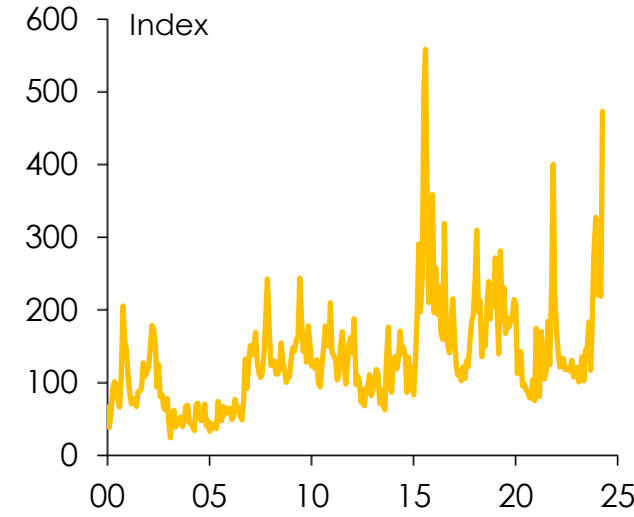
Brazil



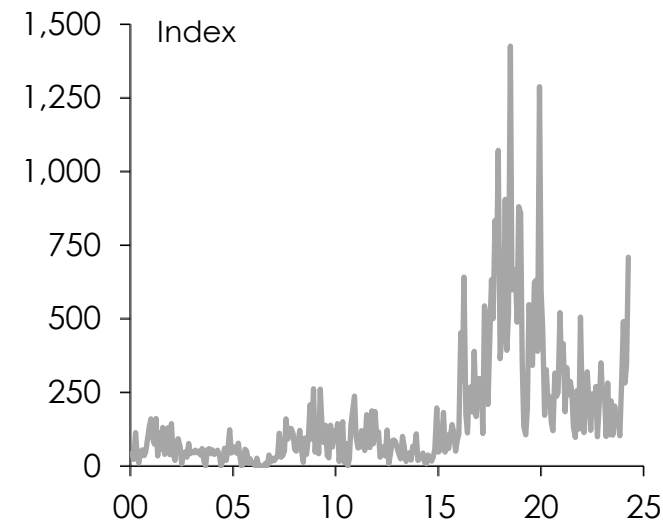
Mexico



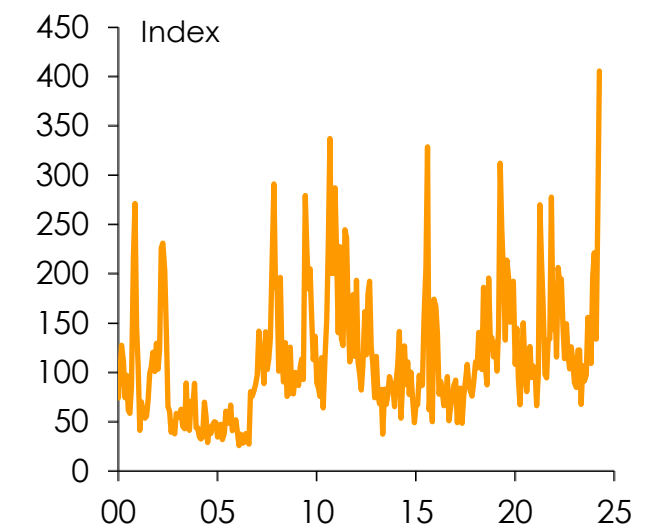
United Kingdom



China

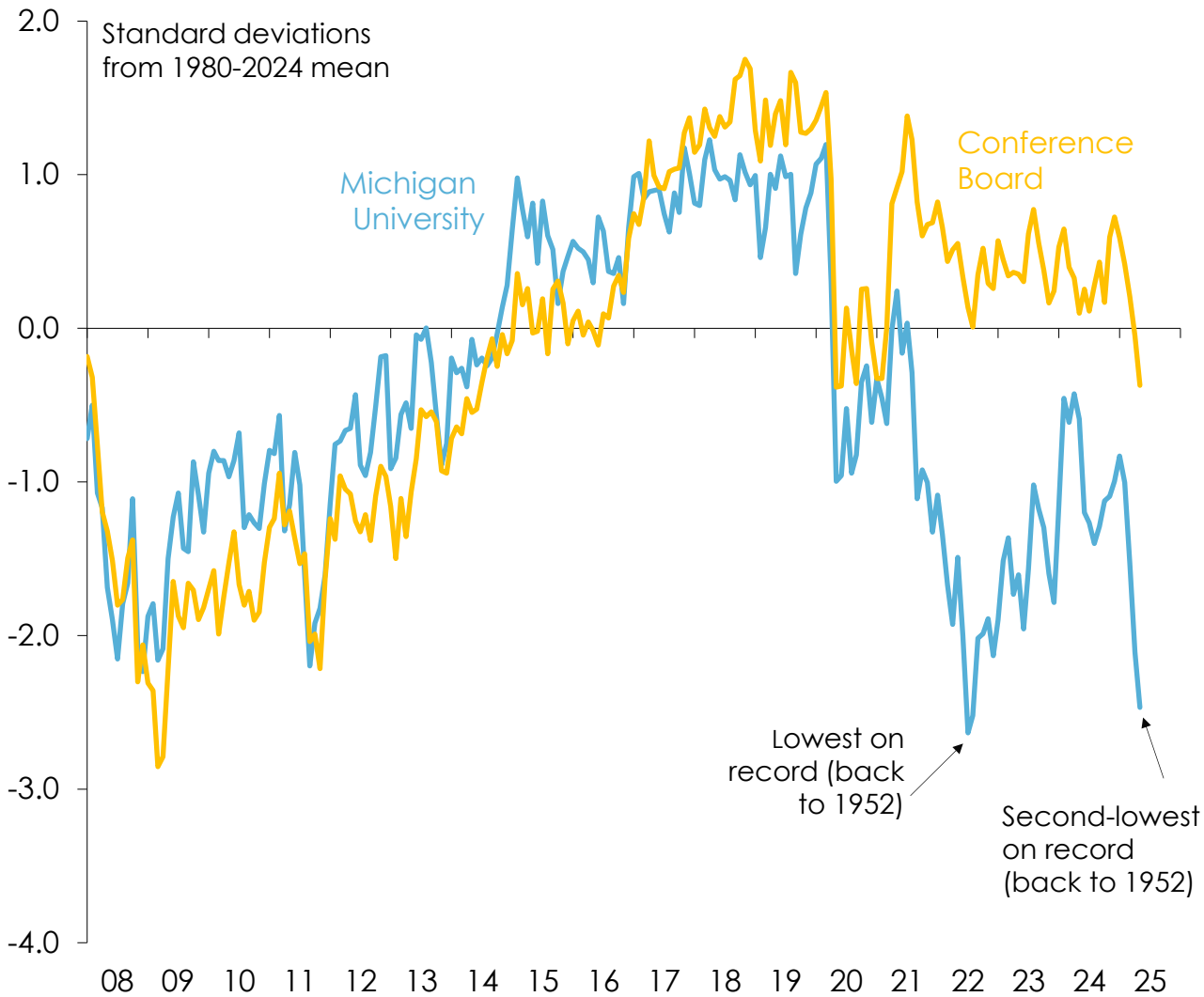


Australia

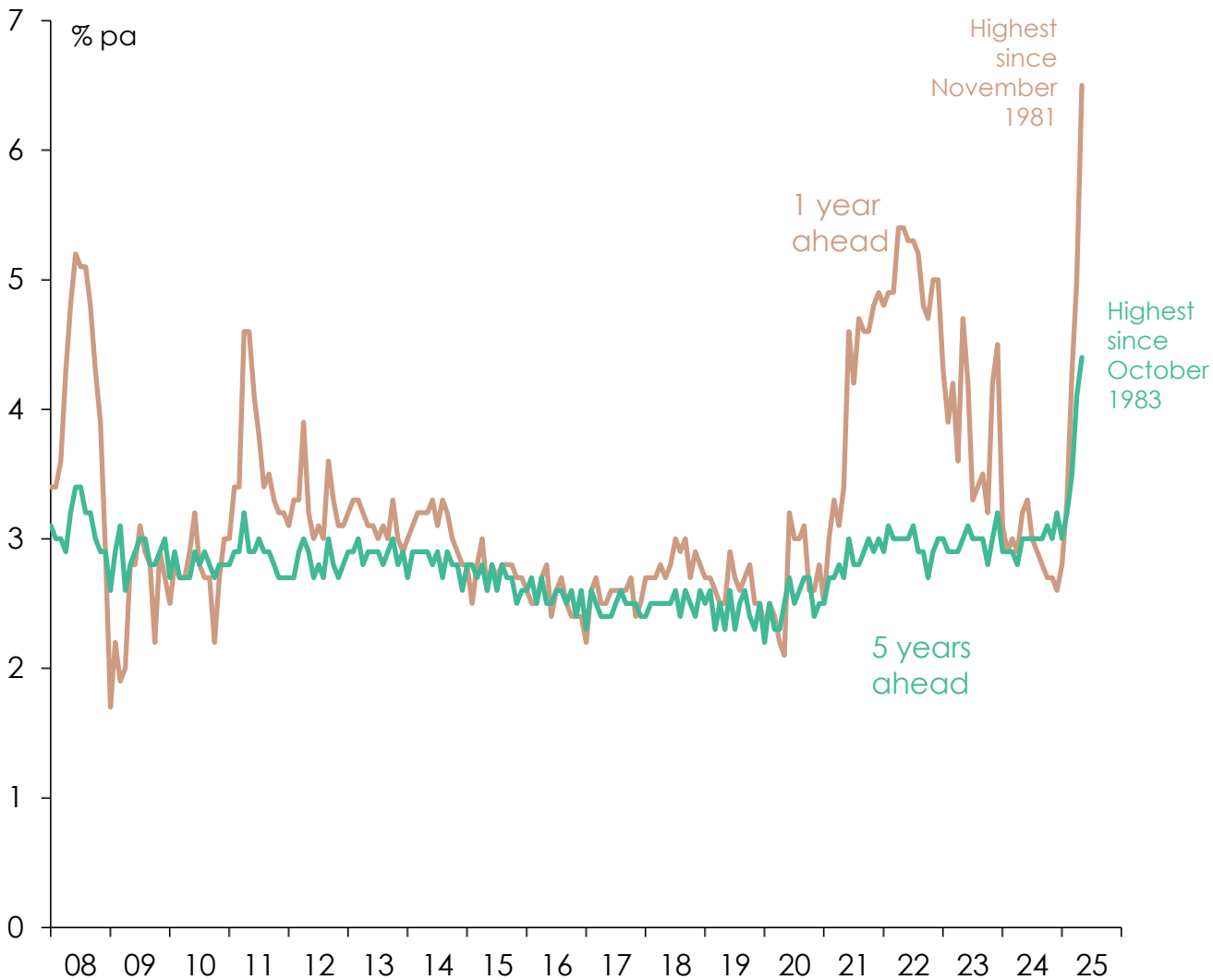


American households are starting to sense that an economic winter is coming

Measures of US consumer sentiment



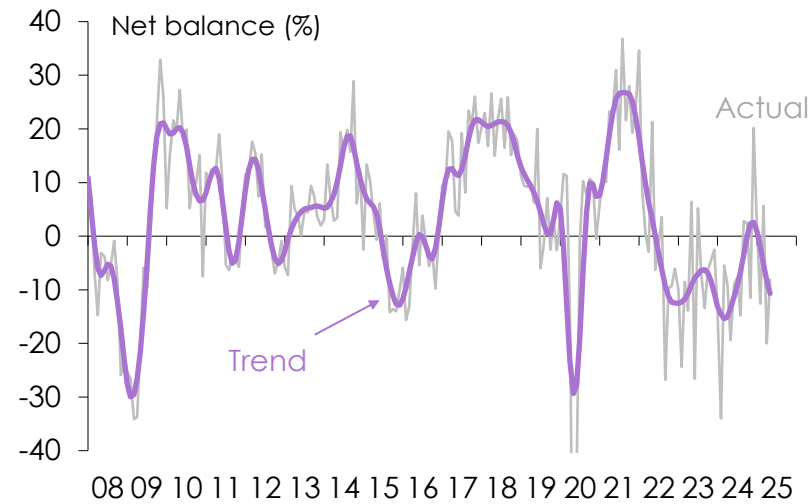
Household inflation expectations



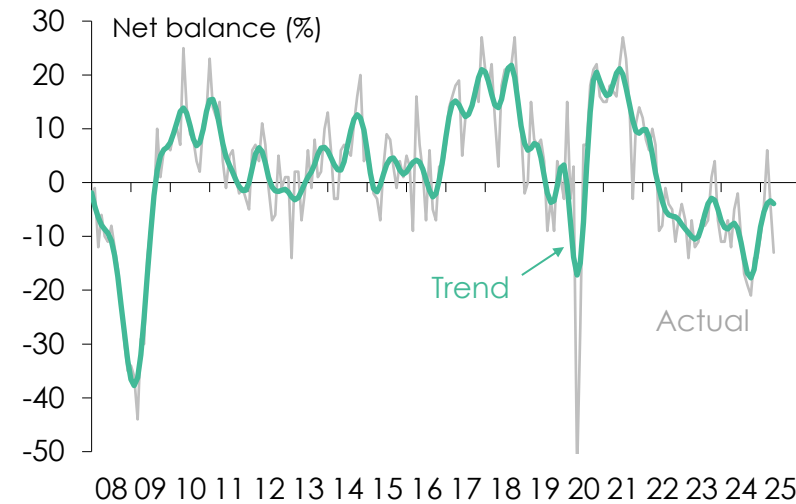
Note: The Conference Board measure gives much greater weight to consumer perceptions of labour market conditions, while the Michigan University measure gives greater weight to perceptions of inflation. Sources: The Conference Board, [US Consumer Confidence](#); University of Michigan, [Surveys of consumers](#).

Most of the regional Fed surveys are pointing to a downturn in economic activity

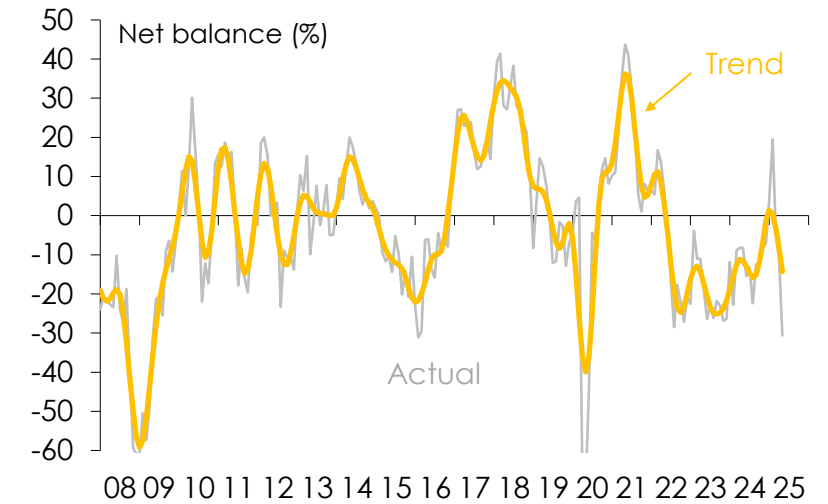
New York Fed manufacturing



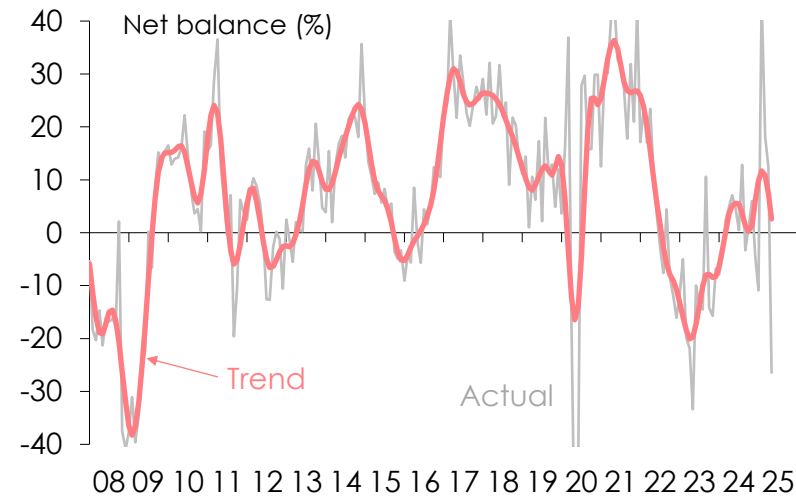
Richmond Fed manufacturing



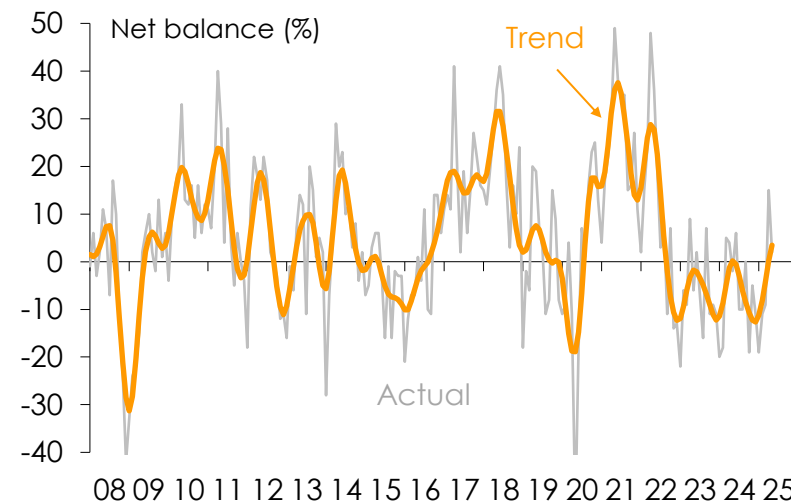
Dallas Fed manufacturing



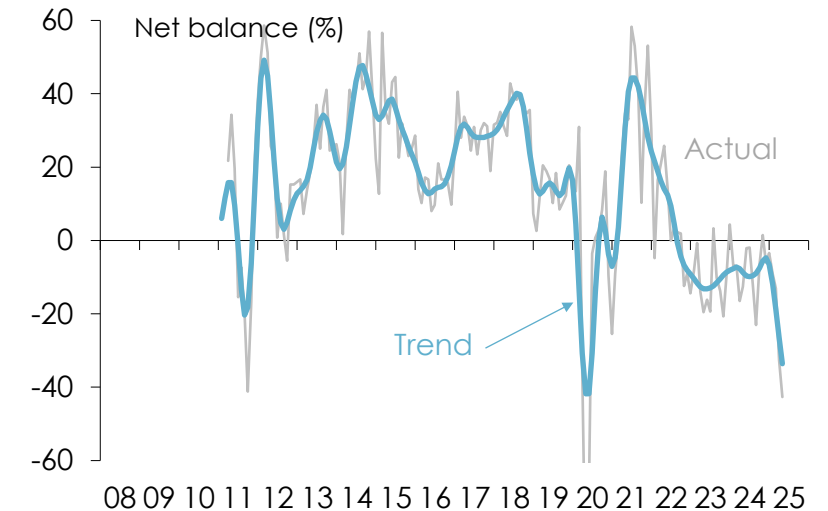
Philadelphia Fed manufacturing



Kansas City Fed manufacturing



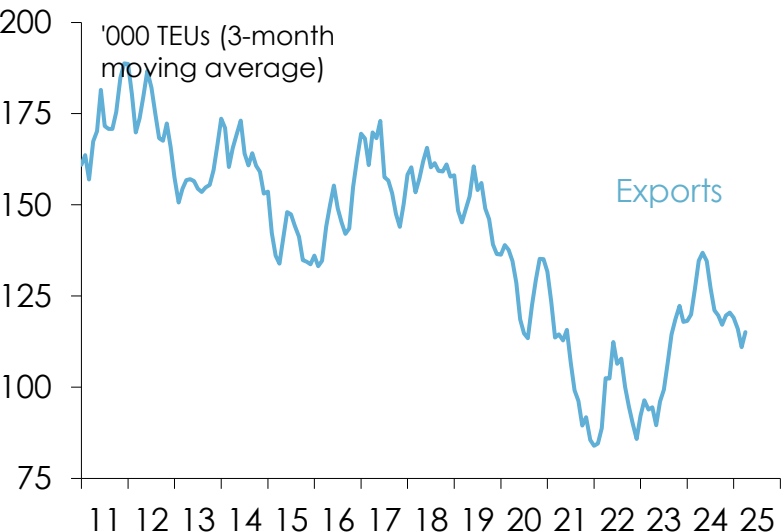
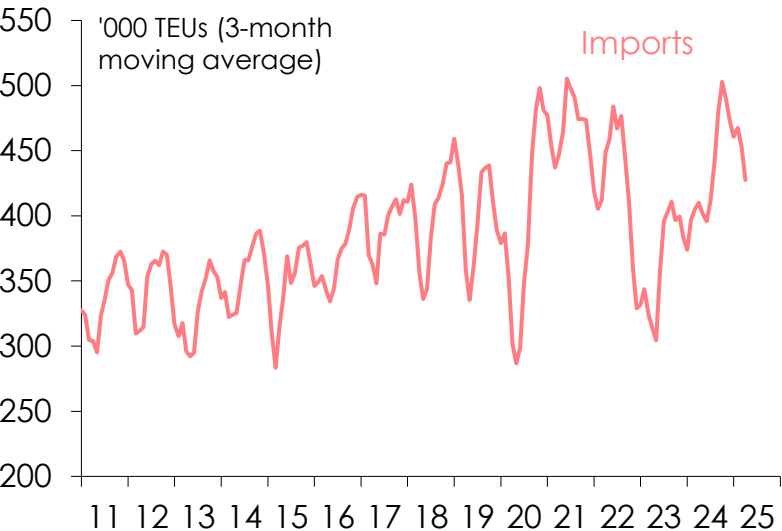
Philadelphia Fed services



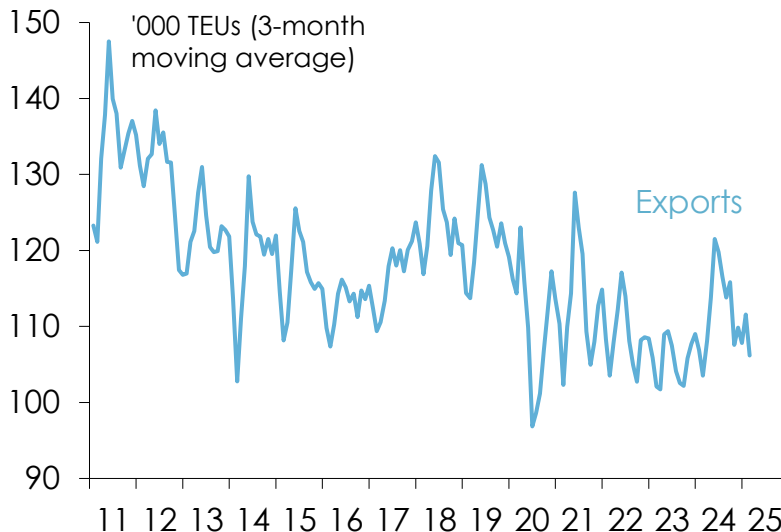
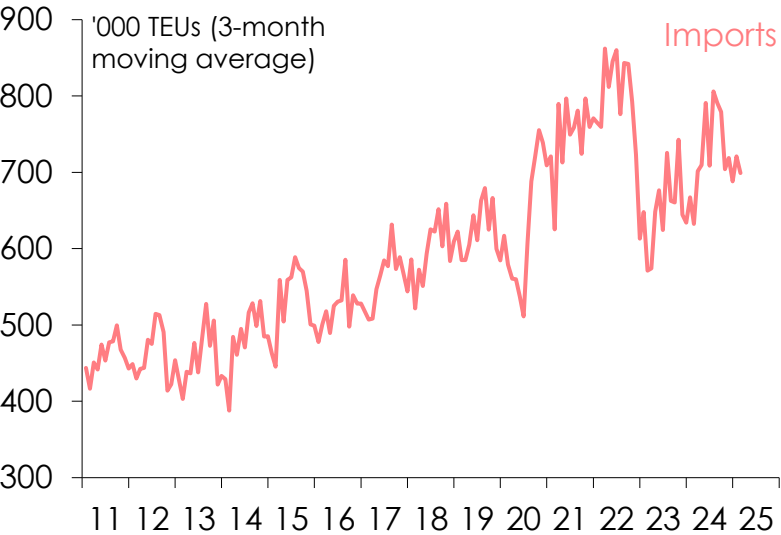
Note: Trend estimates are derived from 13-term Henderson-weighted moving average as used by the Australian Bureau of Statistics. Sources: [Federal Reserve Bank of New York](#); [Federal Reserve Bank of Philadelphia](#); [Federal Reserve Bank of Richmond](#); [Federal Reserve Bank of Kansas City](#); [Federal Reserve Bank of Dallas](#); Corinna.

Port throughput statistics suggest some slowing in activity in the first two-three months of 2025, but there'll likely be a lot more to come

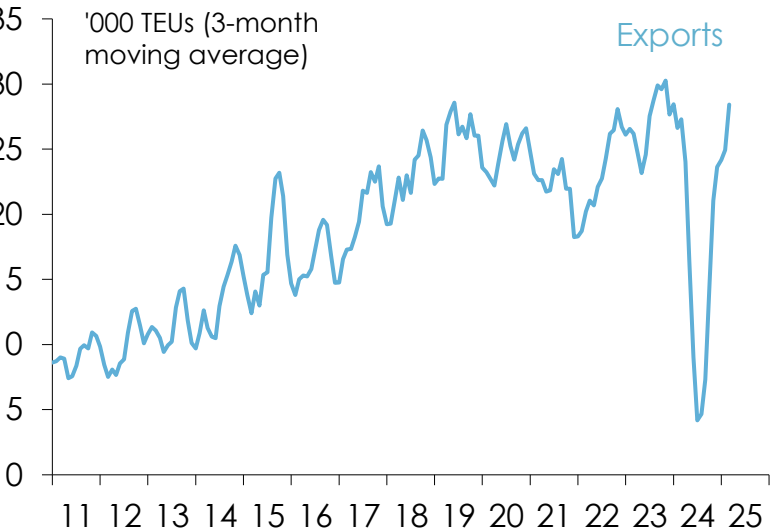
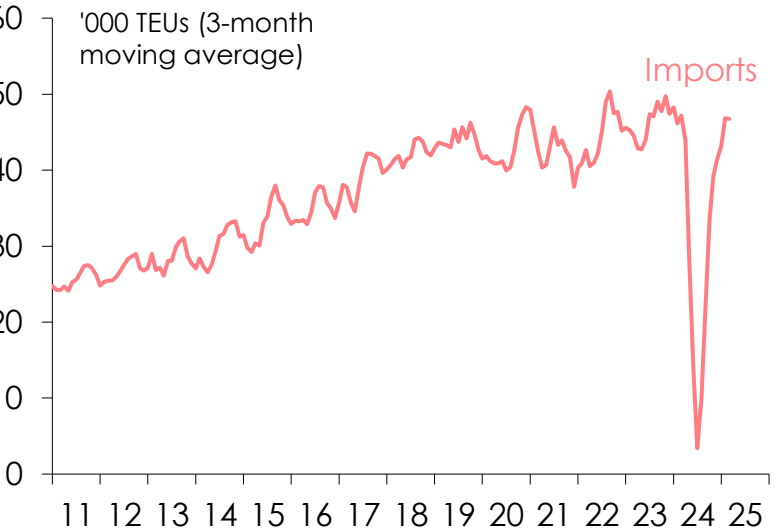
Port of Los Angeles



Ports of New York & New Jersey



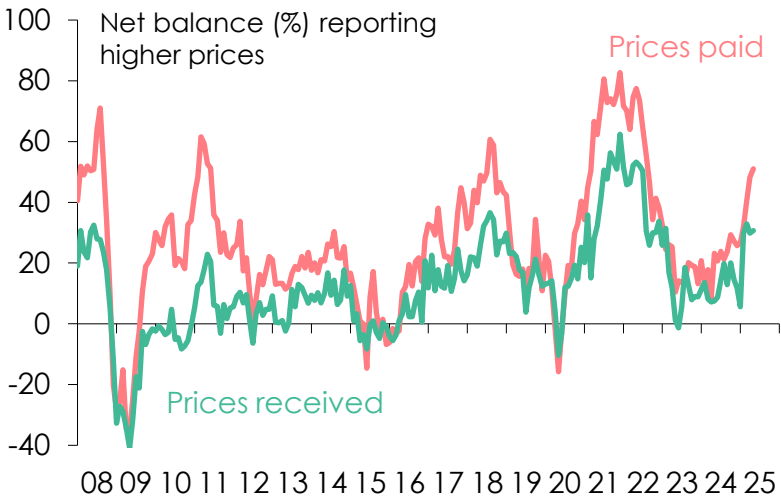
Port of Baltimore



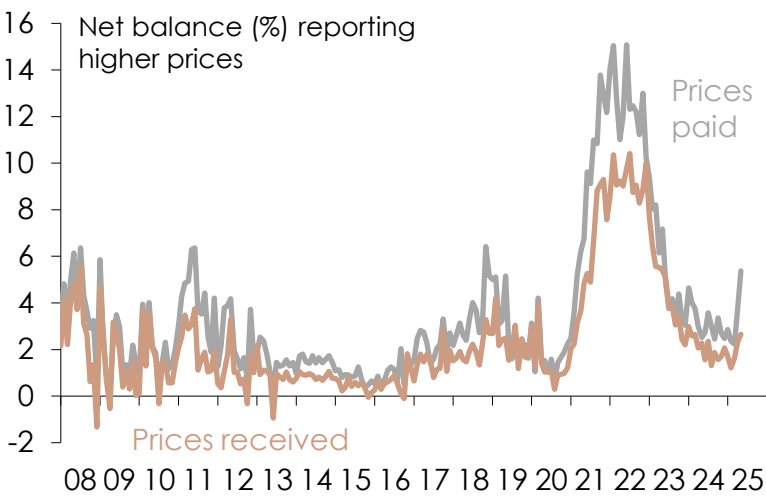
Note: Traffic through the Port of Baltimore was severely disrupted by the collapse of the Francis Scott Key Bridge on 26th March 2024 after one of its piers was struck by a ship.
Sources: [Port of Los Angeles](#), [Port Authority of New York & New Jersey](#) and [Maryland Port Administration](#).

Regional Fed surveys are also picking up signs of a renewed increase in ‘upstream’ inflationary pressures

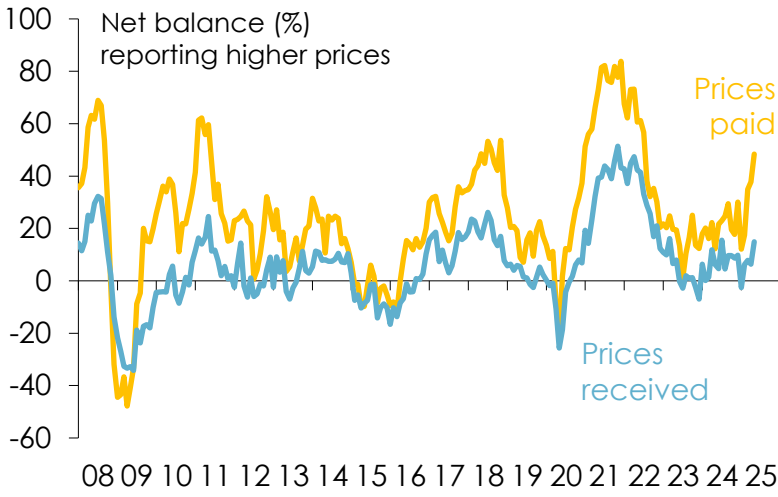
Philadelphia Fed manufacturing



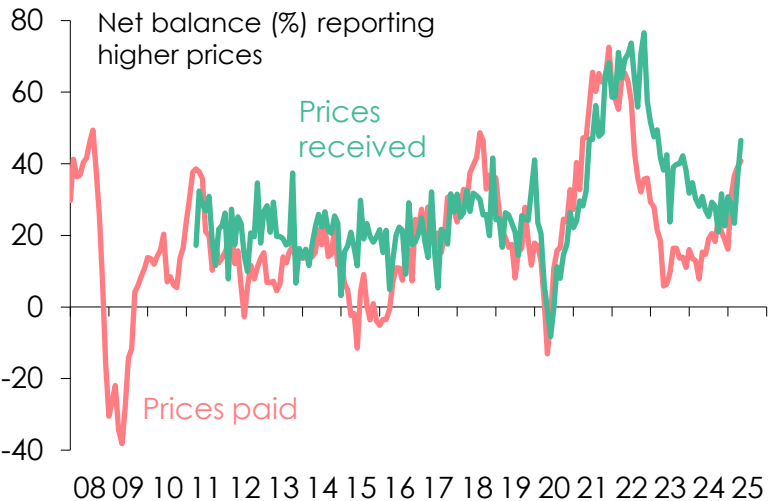
Richmond Fed manufacturing



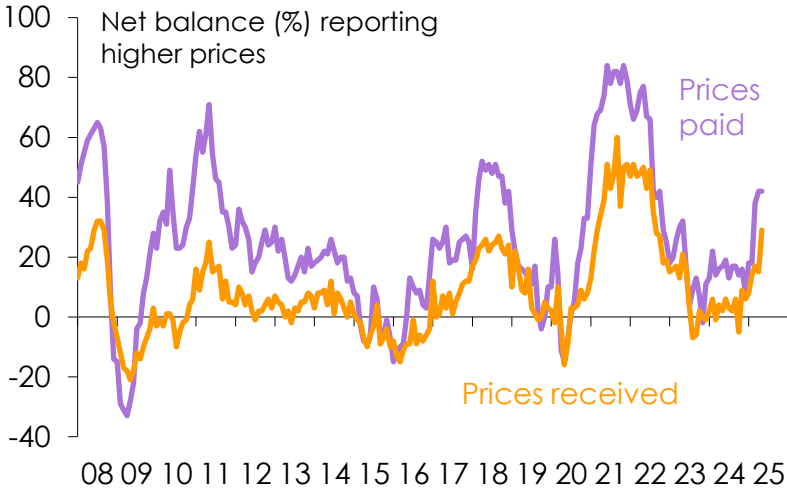
Dallas Fed manufacturing



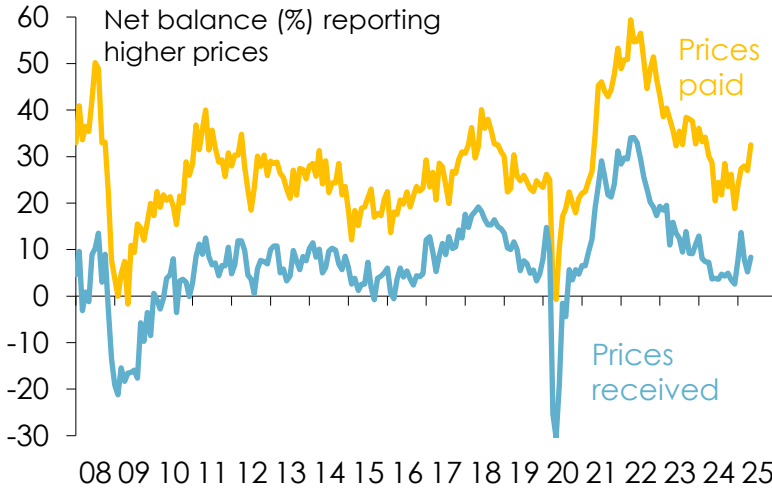
Philadelphia Fed services



Kansas City Fed manufacturing



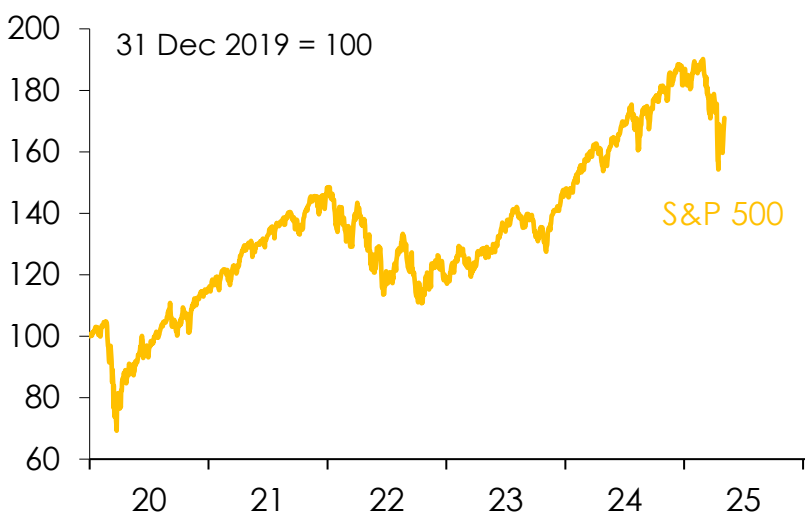
Dallas Fed services



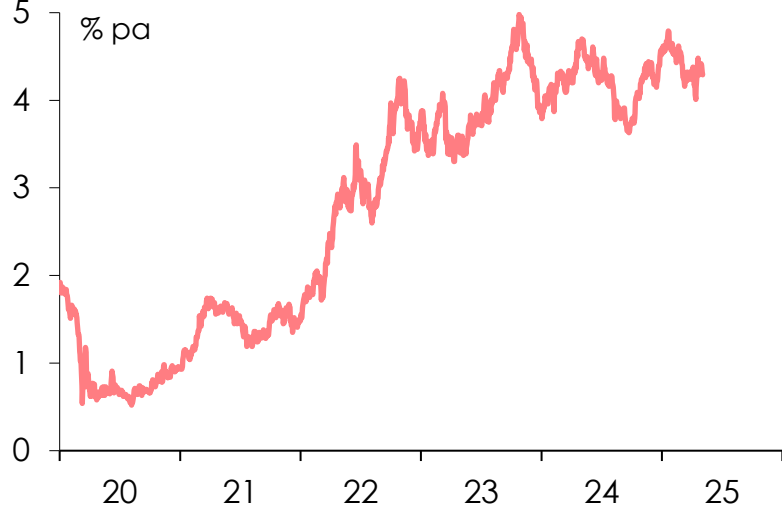
Sources: [Federal Reserve Bank of Philadelphia](#); [Federal Reserve Bank of Richmond](#); [Federal Reserve Bank of Kansas City](#); [Federal Reserve Bank of Dallas](#)..

The financial markets can sniff trouble brewing ahead, too – despite some recovery after a series of Trump back-downs

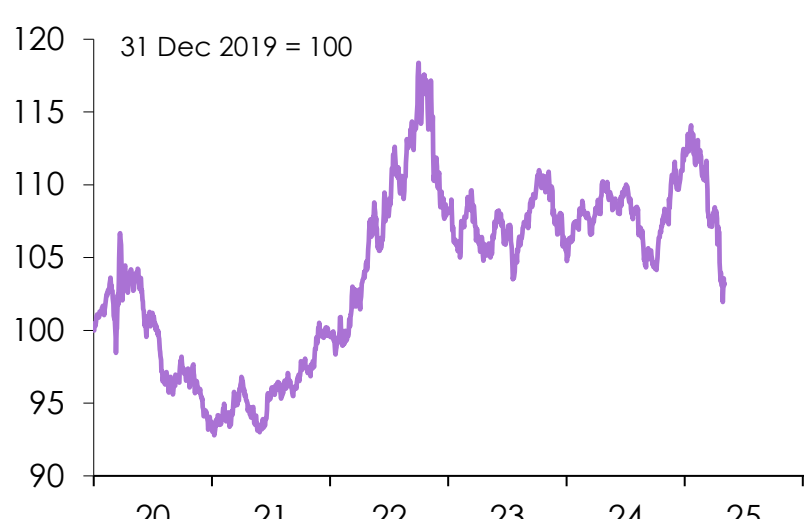
US stock market



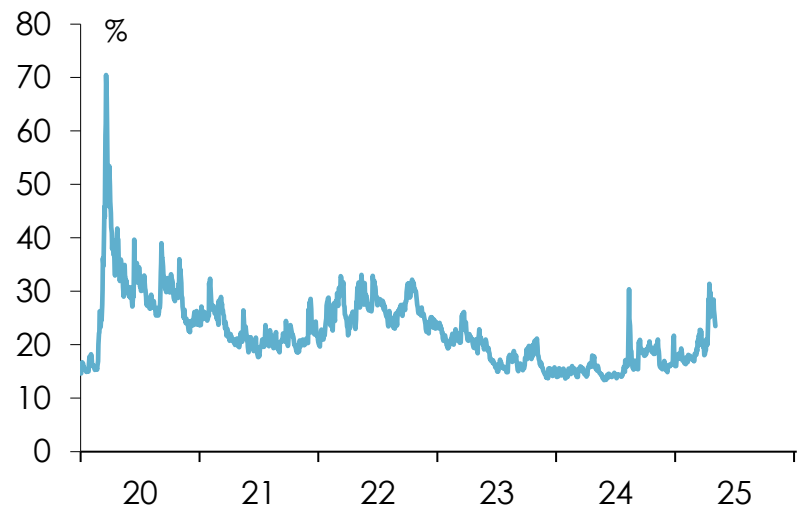
US 10-year bond yields



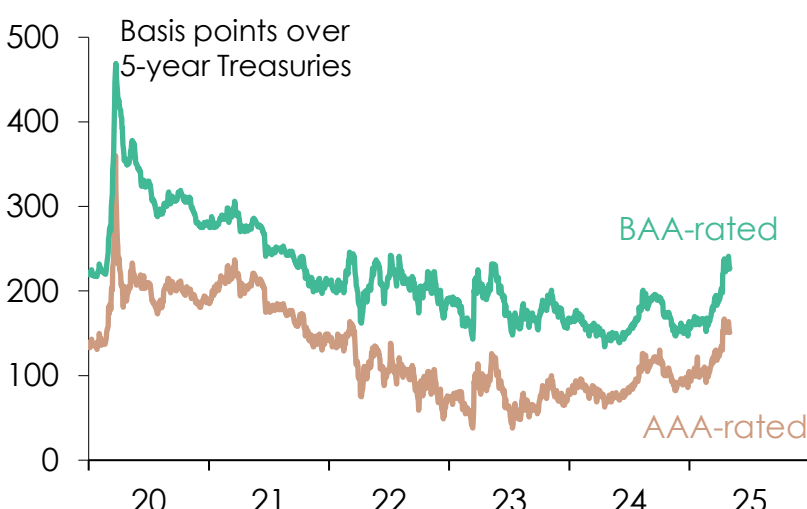
US dollar index



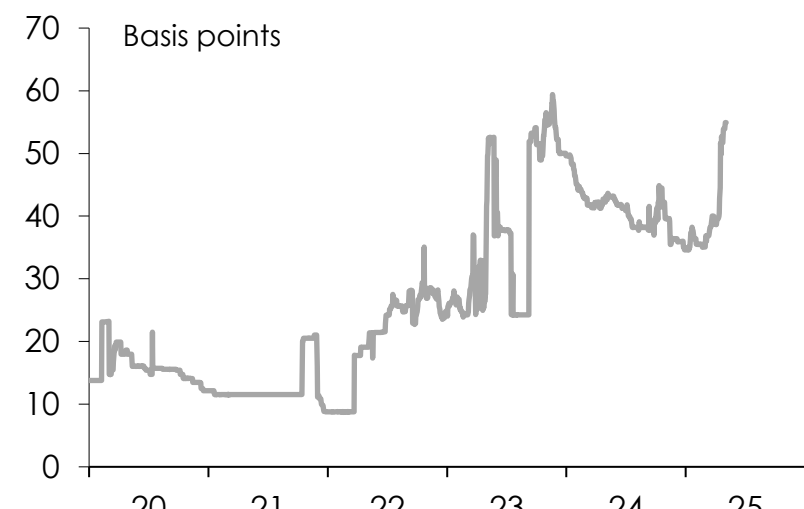
Volatility ('VIX') index



Corporate bond yield spreads



10 yr US credit default swap



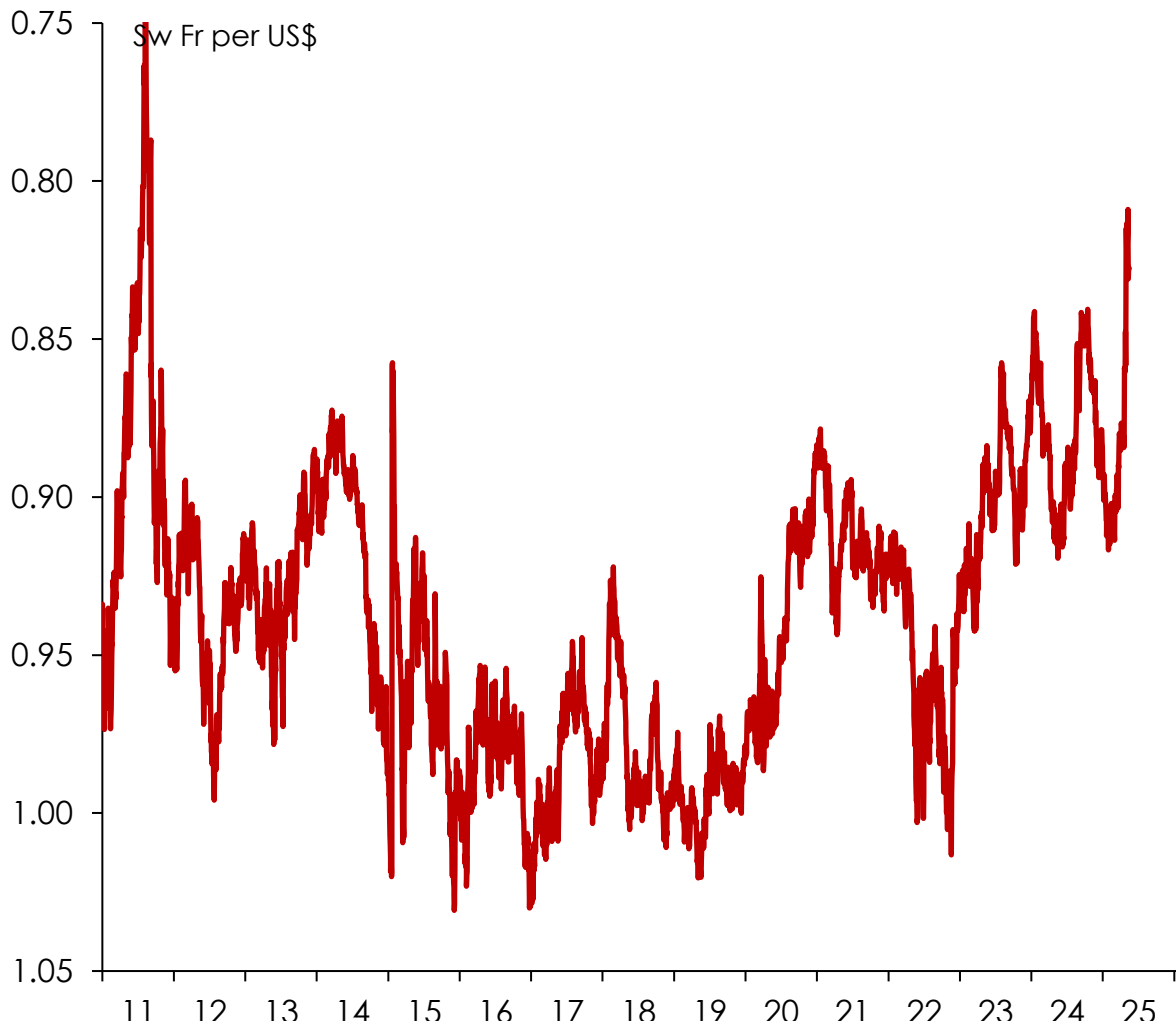
Source: Refinitiv Datastream. Data up to 25th April.

With the US dollar and US Treasury bonds losing some of their ‘safe haven’ status, gold and the Swiss franc have gained from pervasive uncertainty

Gold price

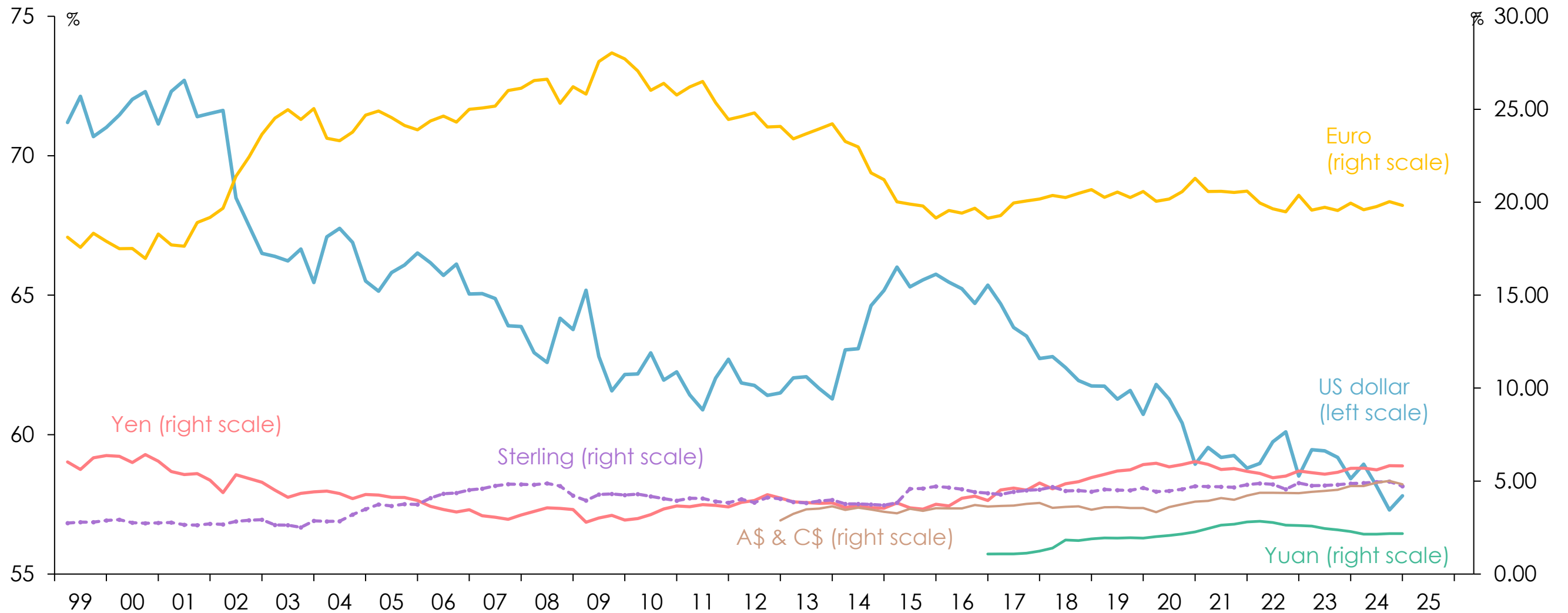


Swiss franc



The US dollar is still the world's principal reserve currency, but it is losing 'market share' and will probably now do so more rapidly

Identified global foreign exchange reserves by currency

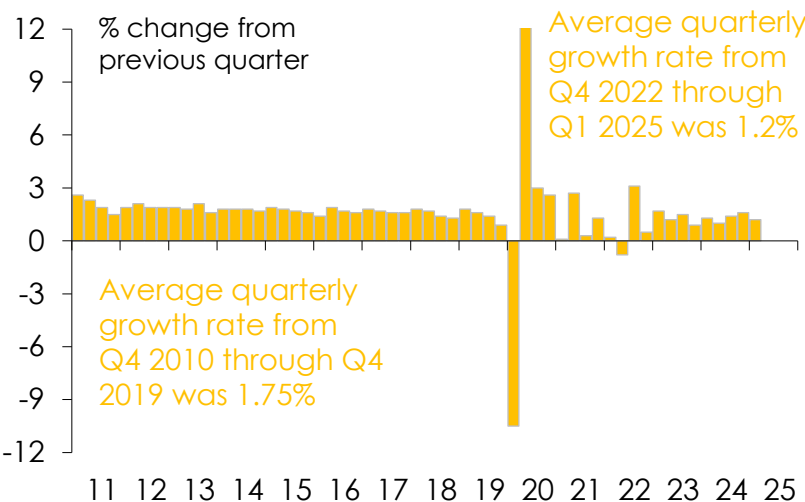


Source: International Monetary Fund, [Currency Composition of Official Foreign Exchange Reserves \(COFER\)](#).

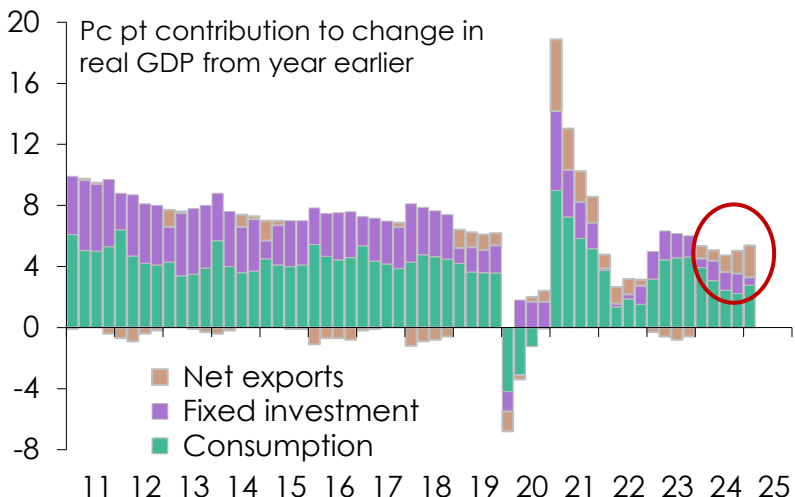
The Chinese economy

China's post-Covid recovery has been very modest

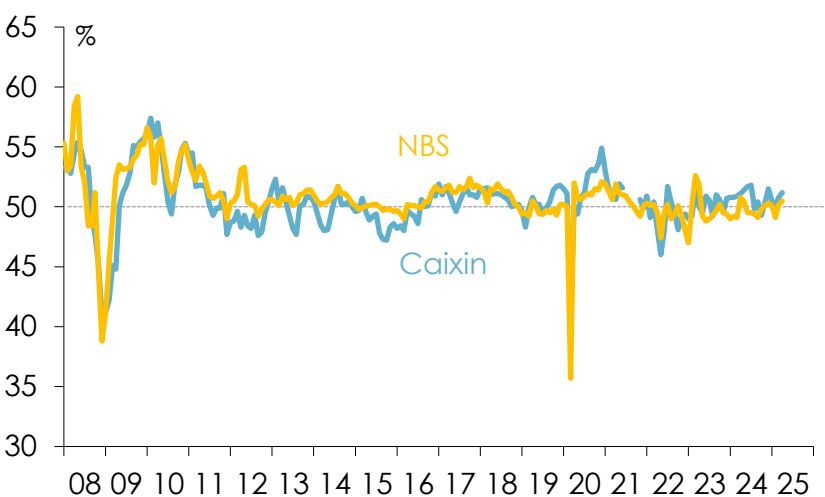
Quarterly real GDP growth



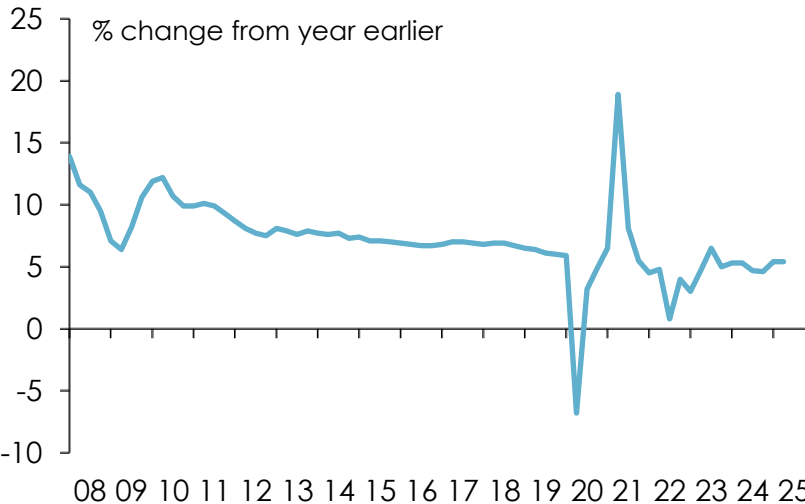
Contributions to GDP growth



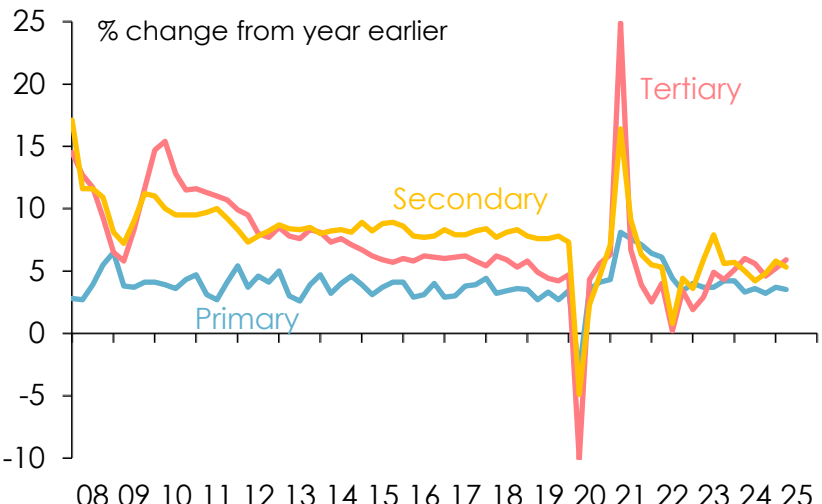
Manufacturing PMIs



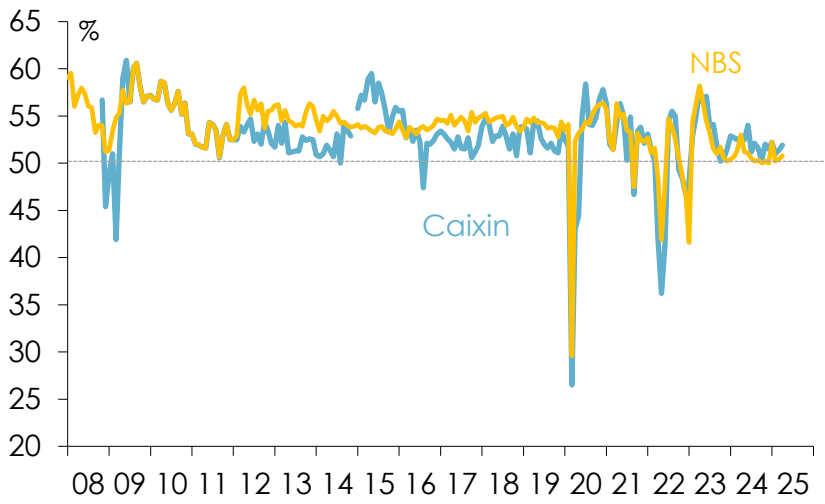
Annual real GDP growth



Annual real GDP growth, by sector



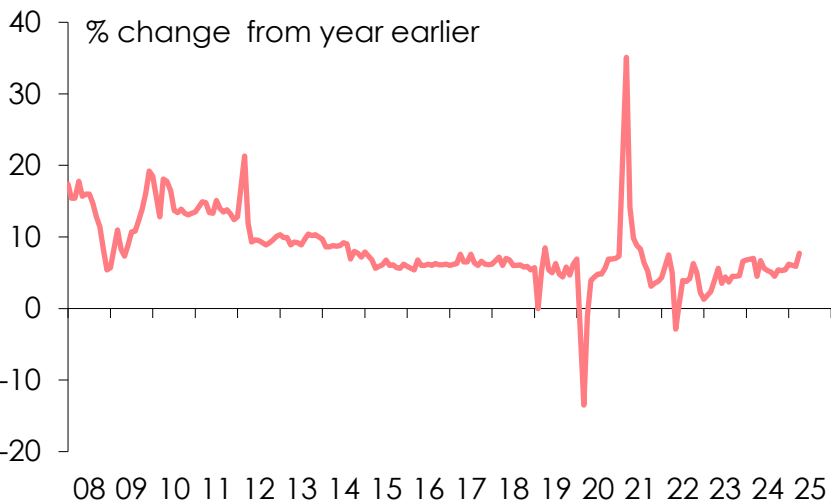
Services PMIs



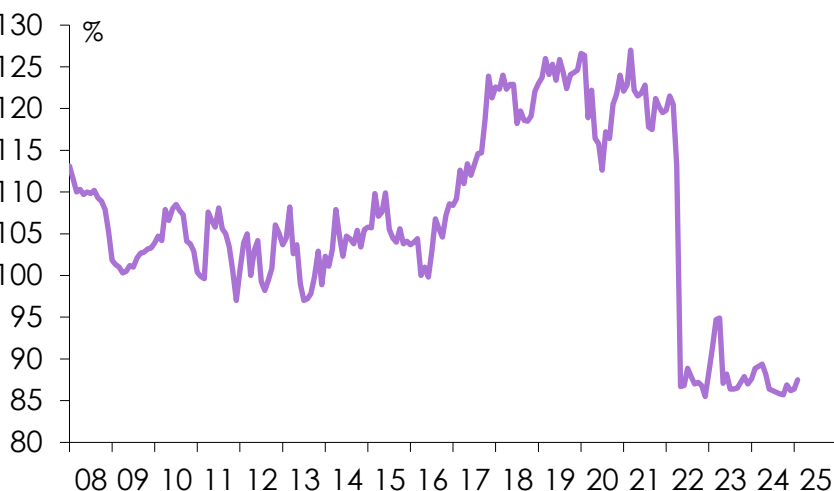
Note: PMIs are purchasing managers' indices (ie compiled from surveys of purchasing managers). Sources: [National Bureau of Statistics of China](#); [Caixin Global](#).

Both the ‘supply’ and ‘demand’ sides of the domestic Chinese economy have remained soft in the aftermath of the pandemic

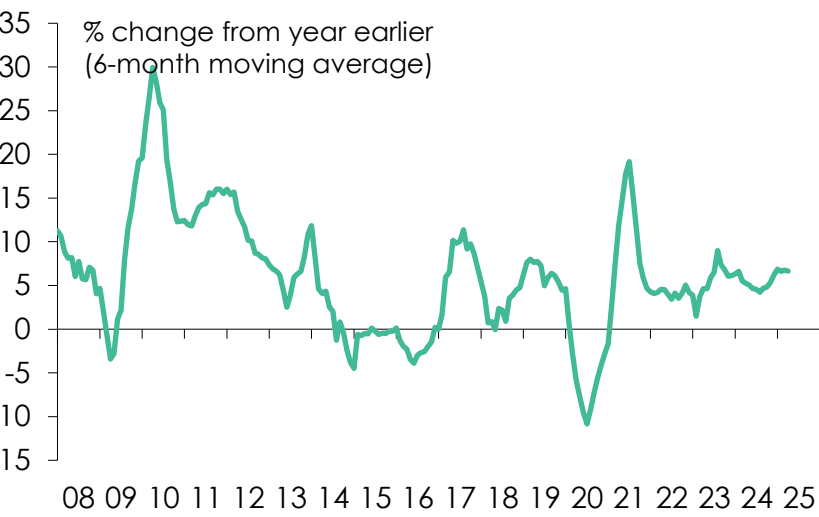
Industrial production



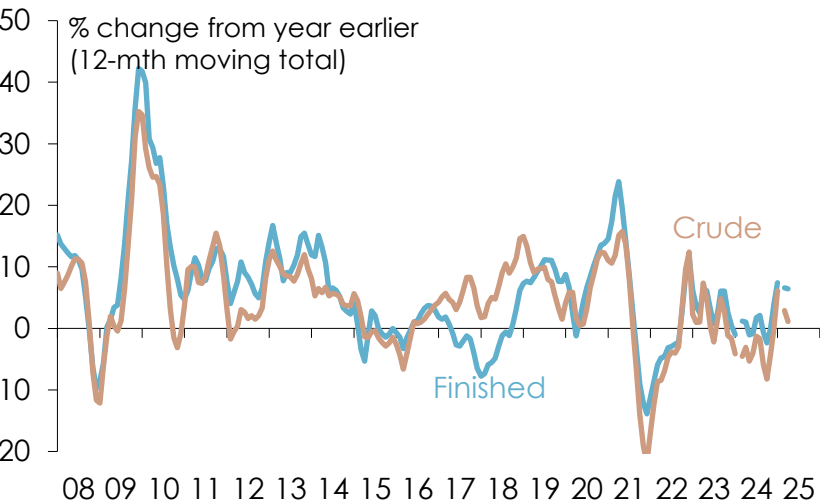
Consumer sentiment



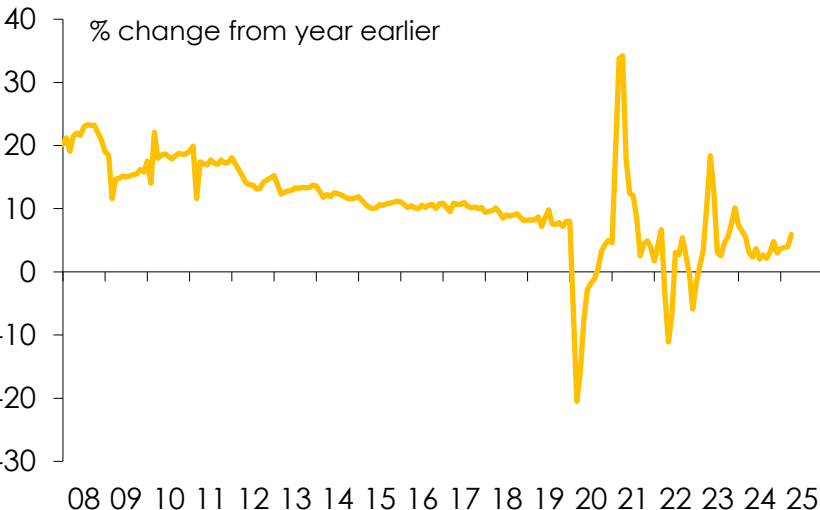
Freight traffic carried



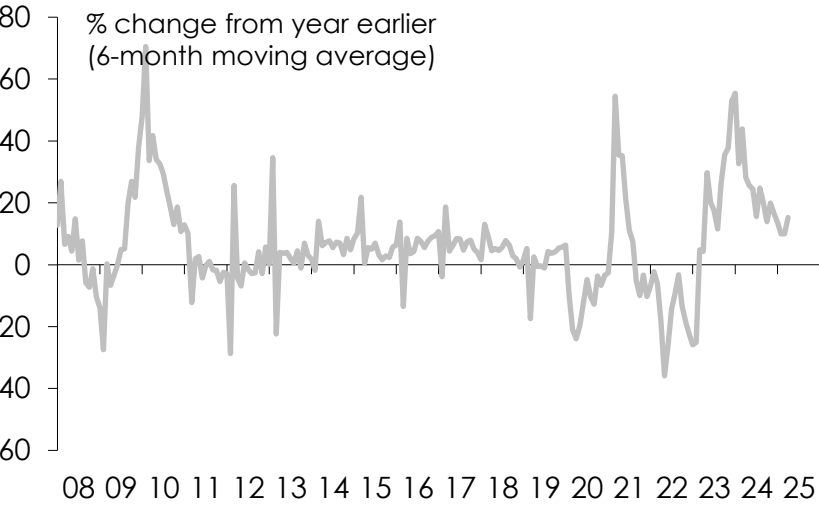
Steel production



Retail sales



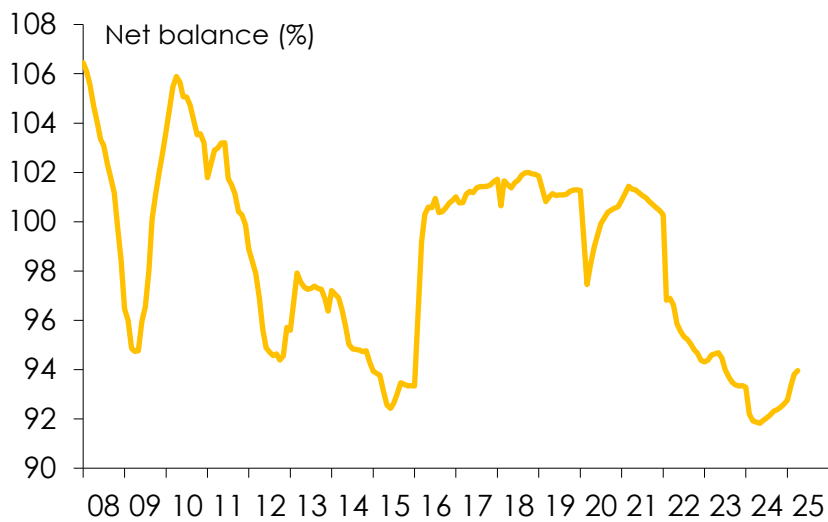
Passenger traffic carried



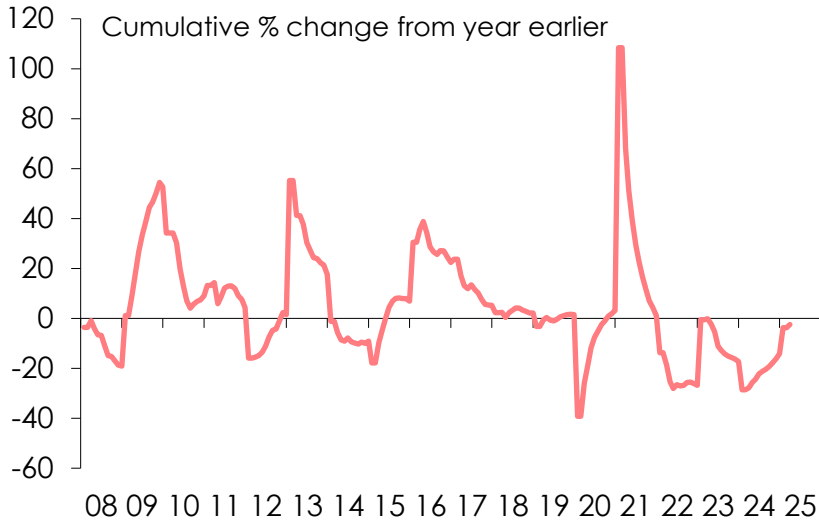
Note: Freight and passenger traffic are expressed in tonne-kms and person-kms respectively. Sources: [National Bureau of Statistics of China](#).

Property development remains a big drag on economic activity – although there are tentative signs that it could be ‘bottoming out’

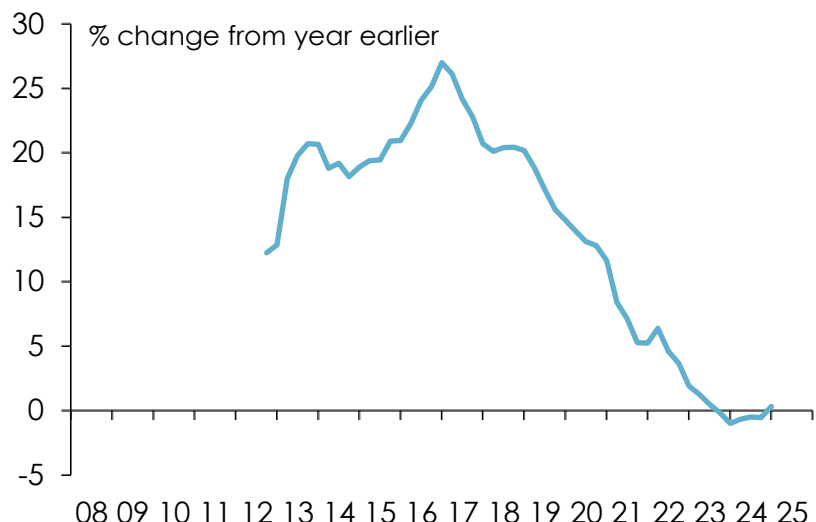
Real estate climate index



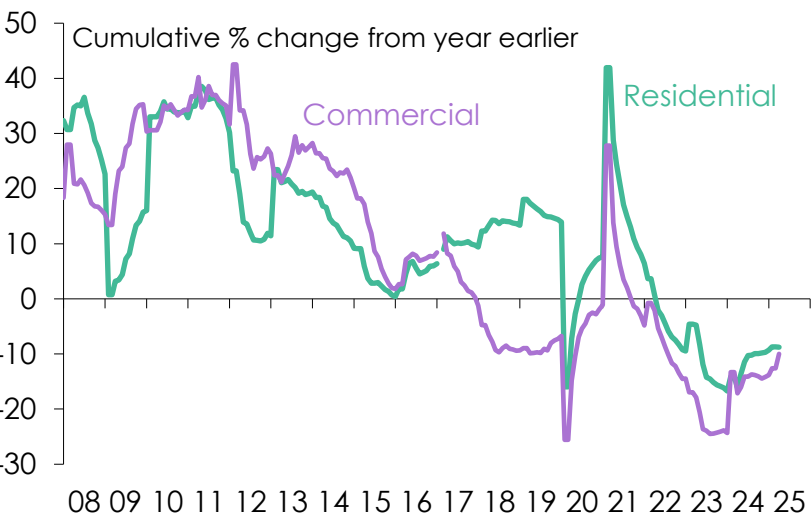
Residential floor space sold



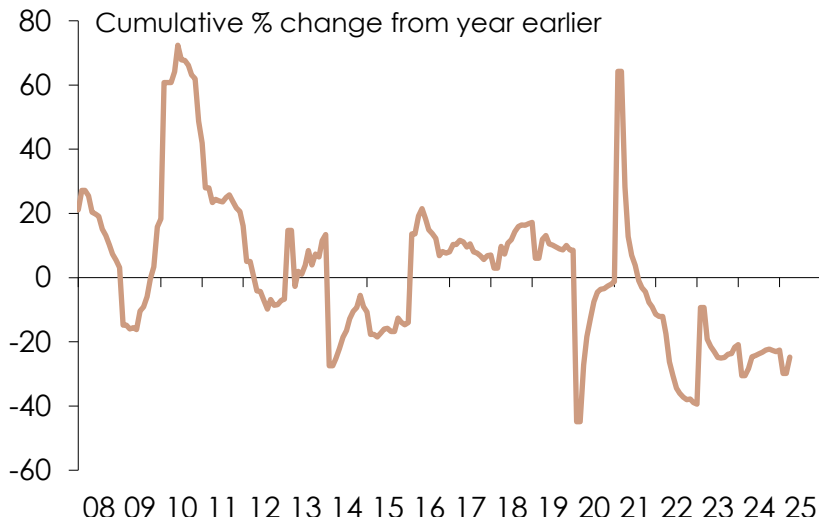
Real estate lending



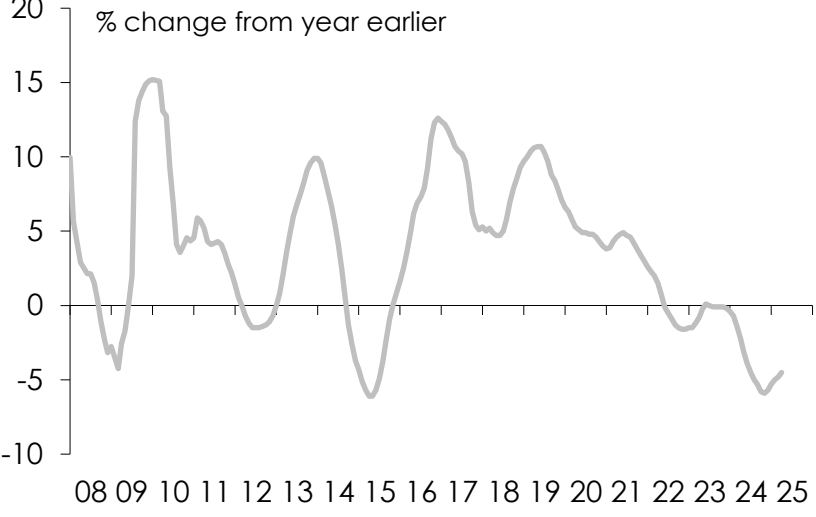
Real estate investment



Residential floor space started



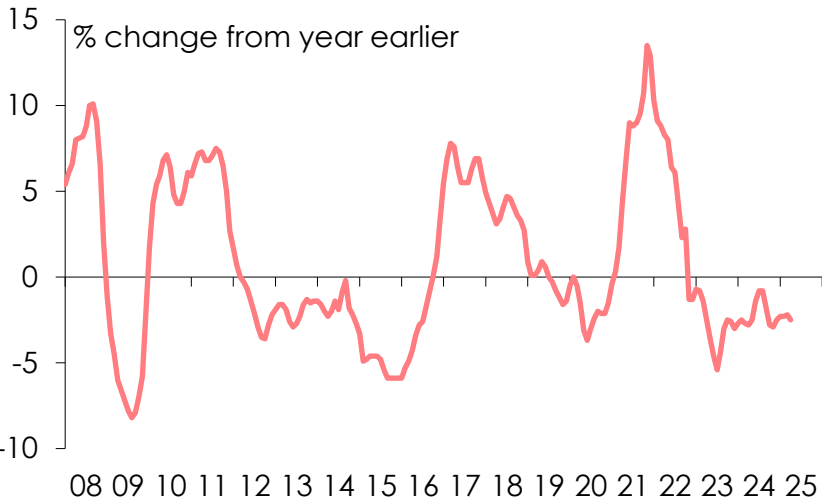
Residential real estate prices



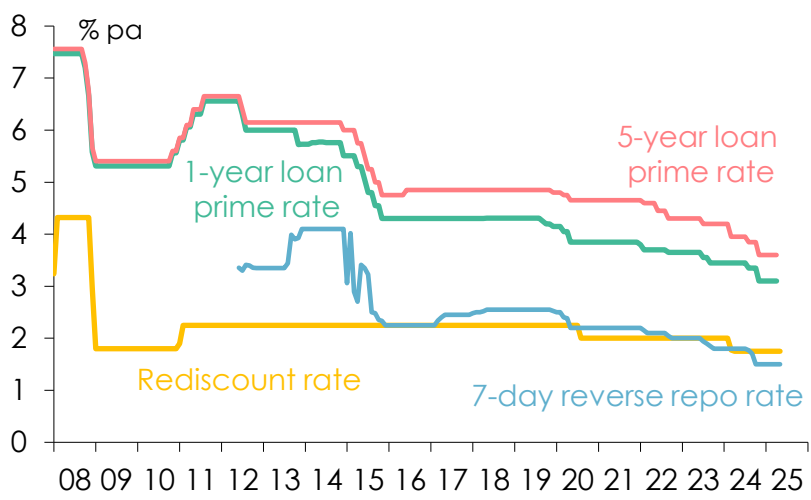
Sources: [National Bureau of Statistics of China](#); [People's Bank of China](#).

One problem China doesn't have is inflation – but the authorities remain very cautious about providing additional policy stimulus

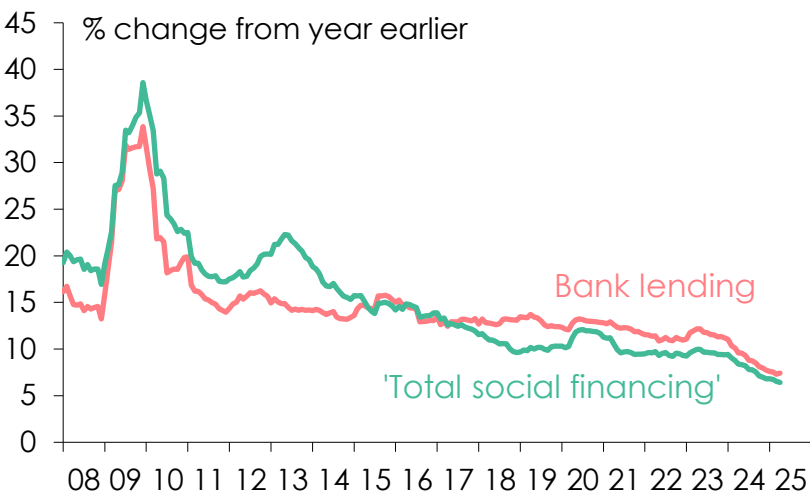
Producer prices



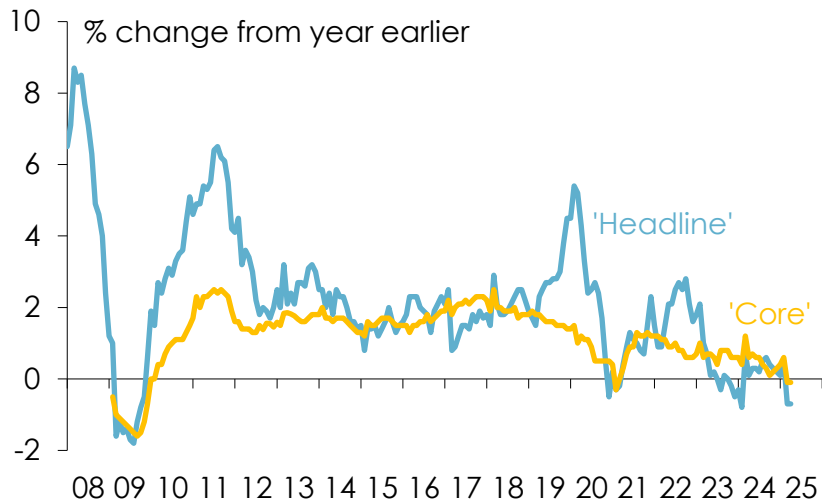
PBoC policy interest rates



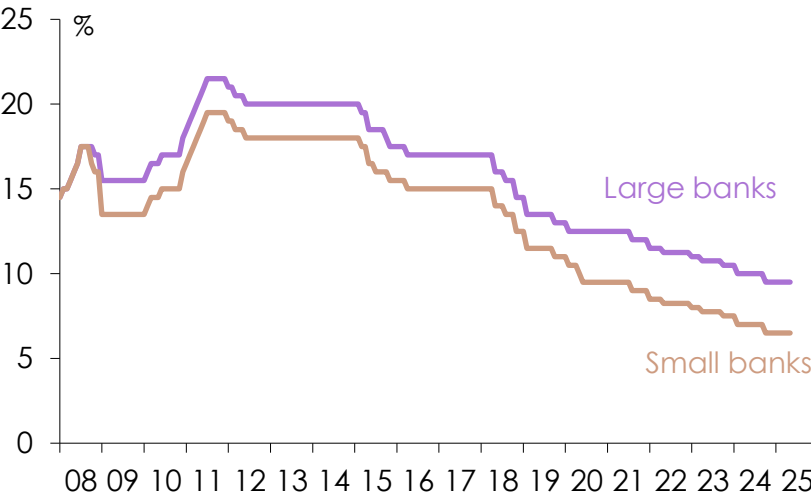
Credit growth



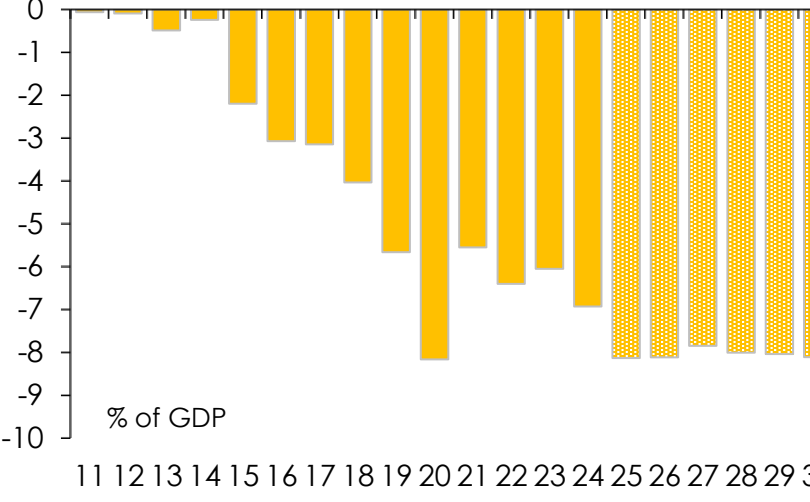
Consumer prices



Bank reserve requirement ratios

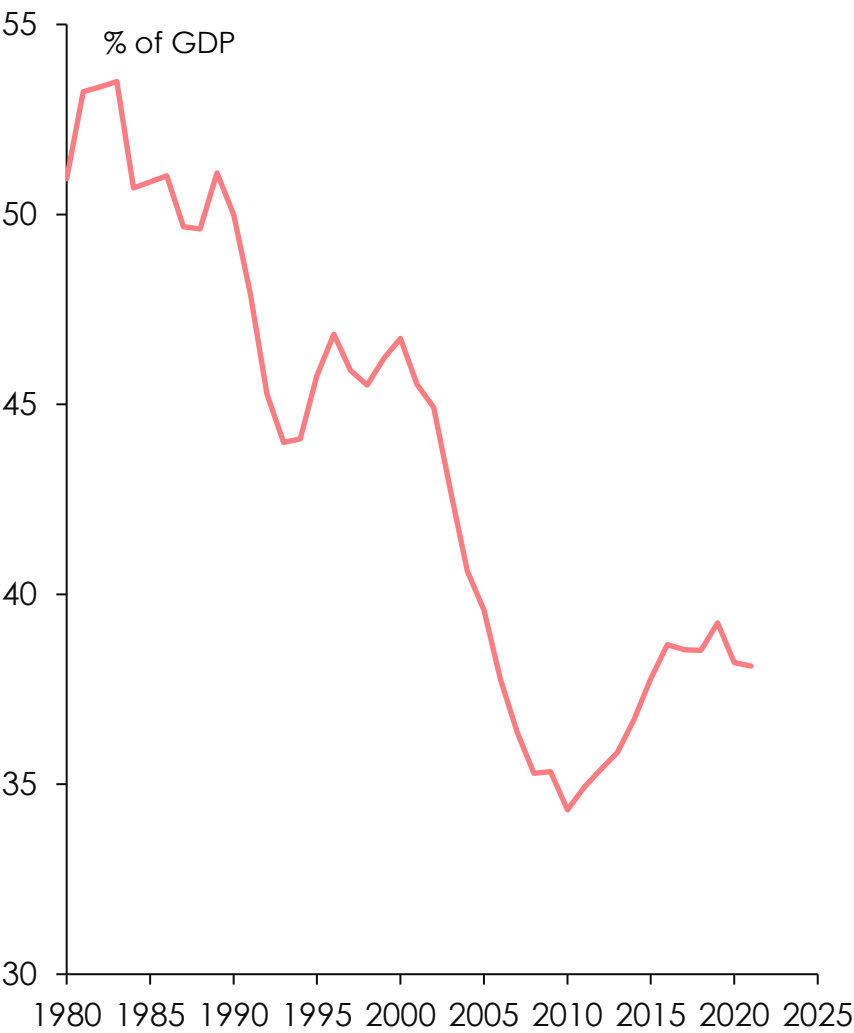


Government budget structural balance

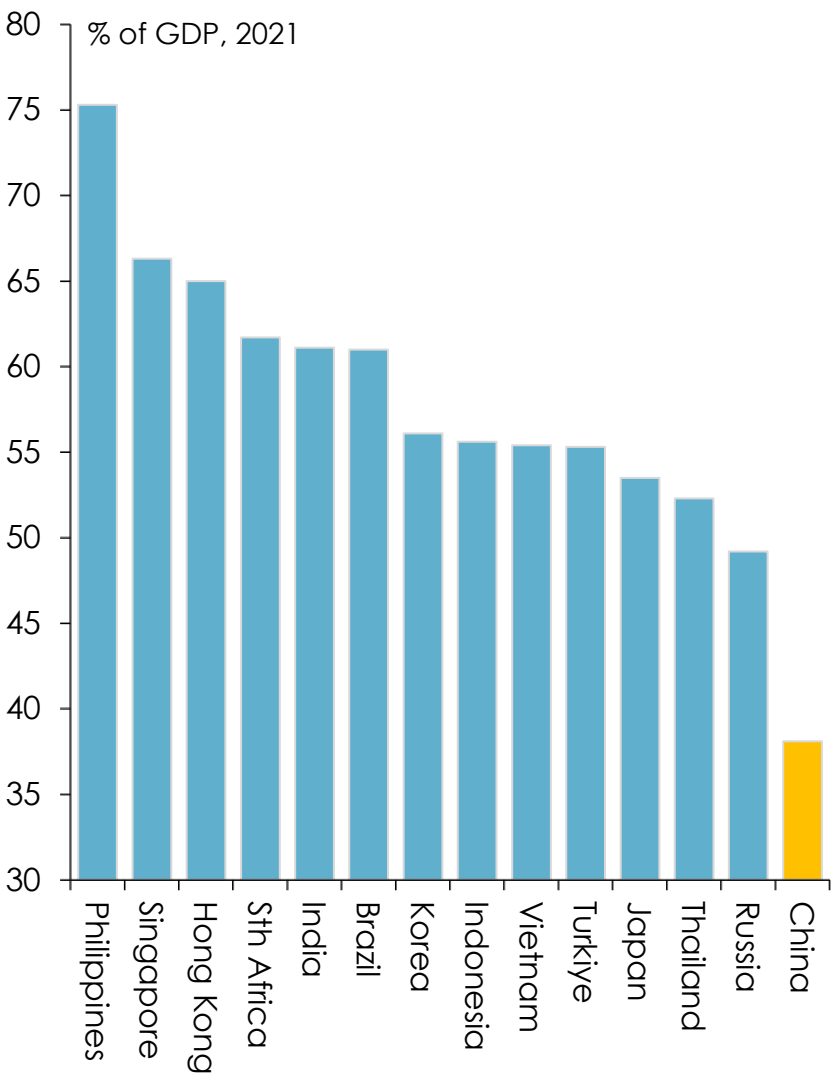


In principle, China could sustain stronger growth by lifting household spending, but that won't happen while households feel obliged to save

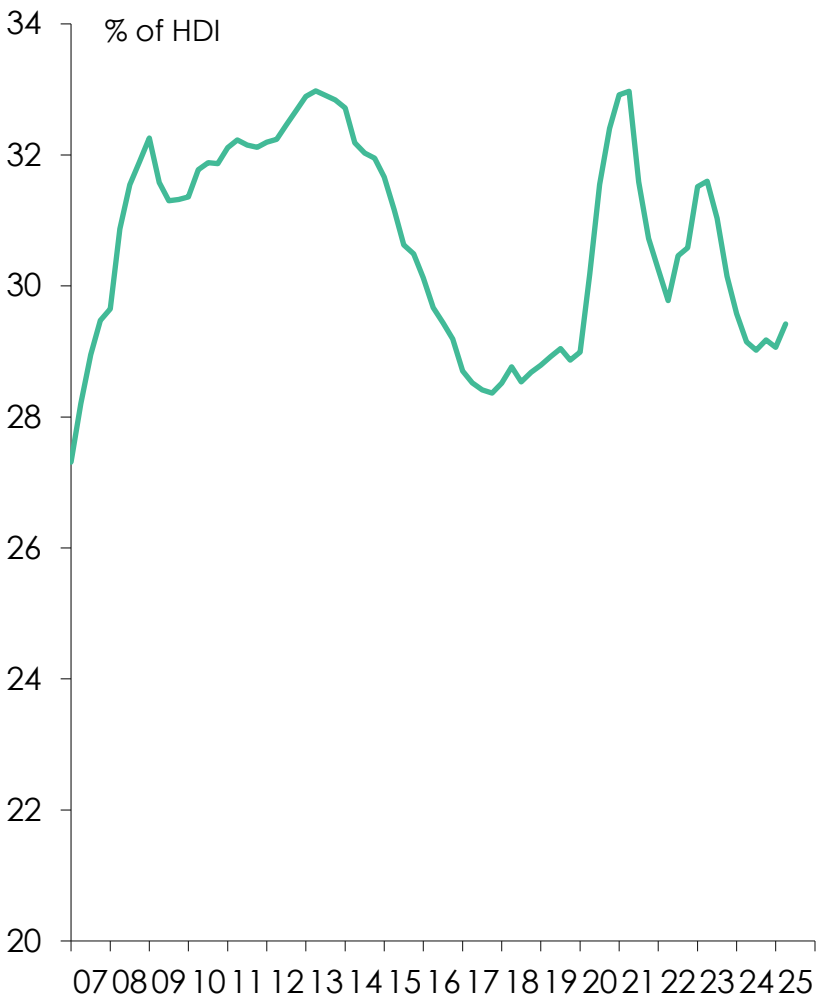
China household consumption as a pc of GDP



Household consumption as a pc of GDP, China & other countries



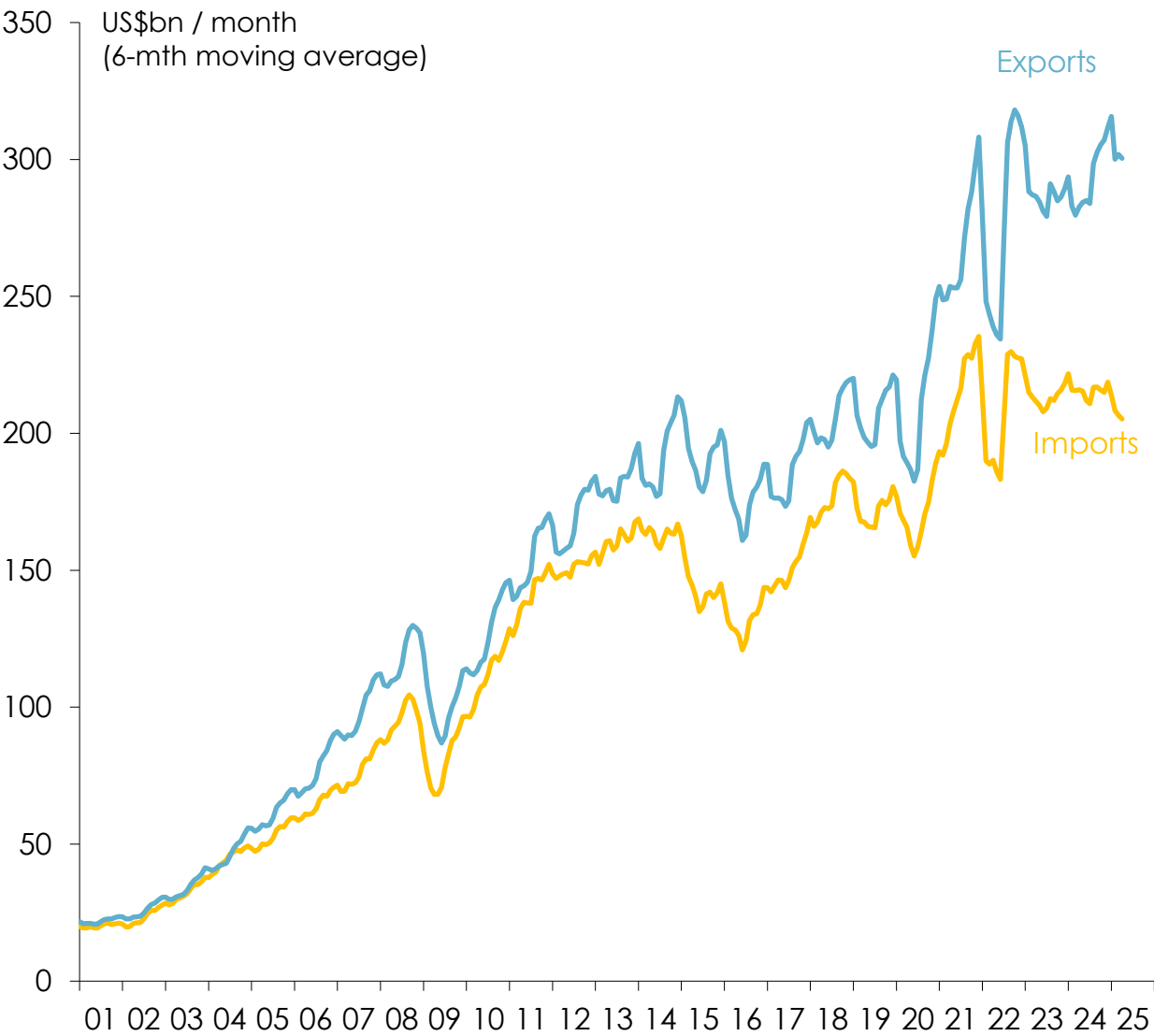
China household savings rate



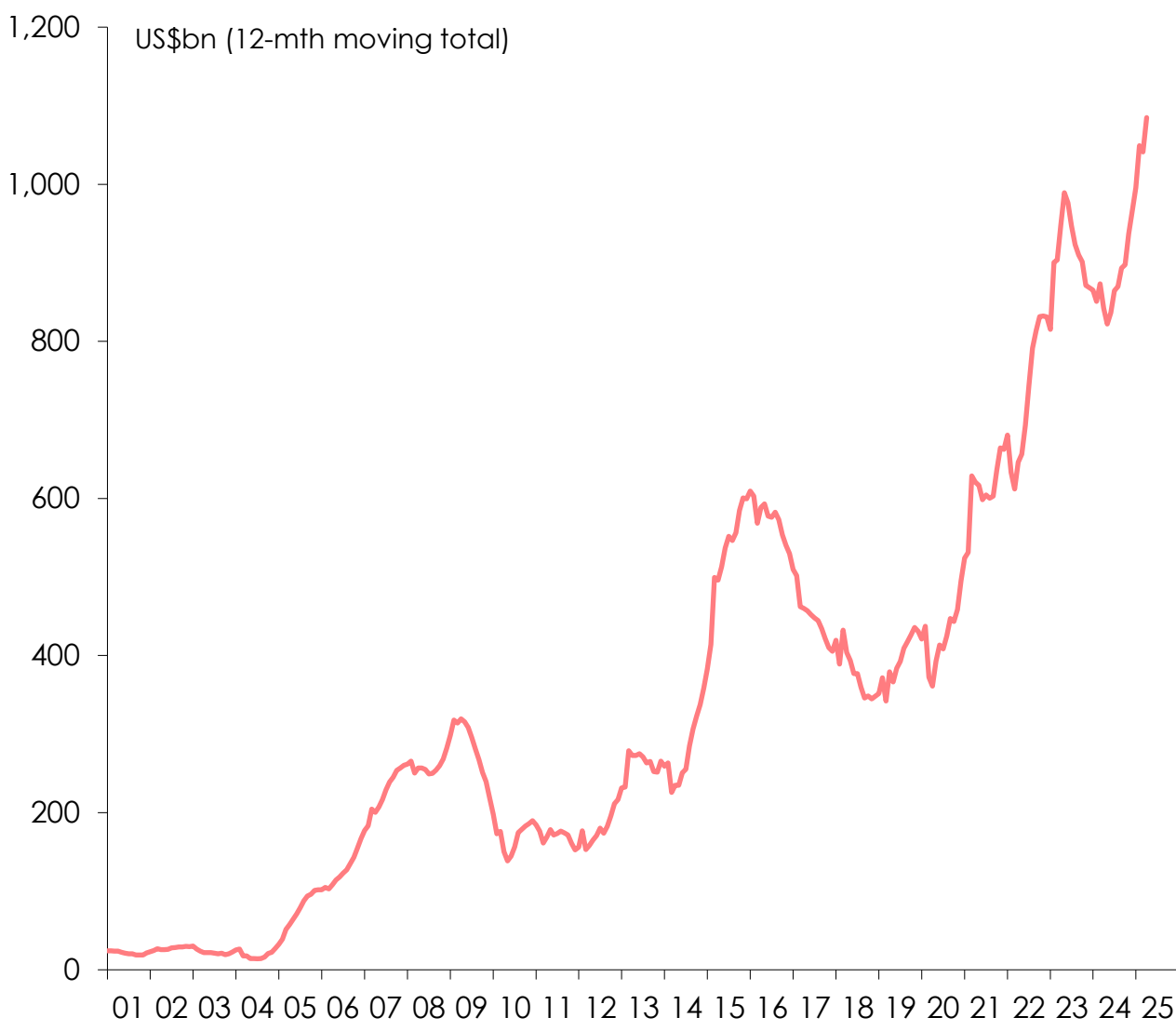
Sources: The World Bank [Data](#); Oxford Economics, [China](#).

China's merchandise trade surplus is being sustained by weakness in imports, not strength in exports

China's merchandise exports and imports



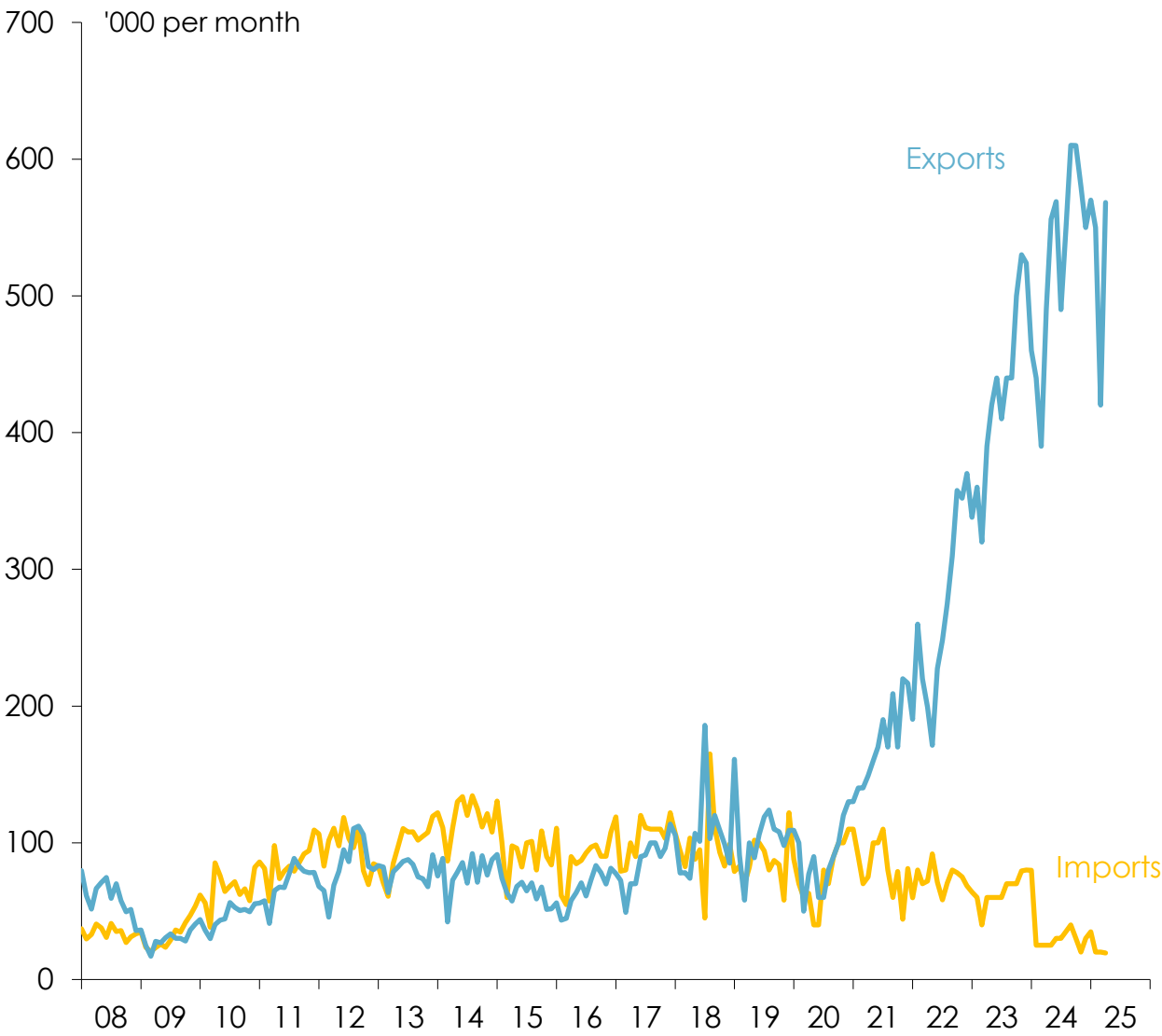
China's merchandise trade surplus



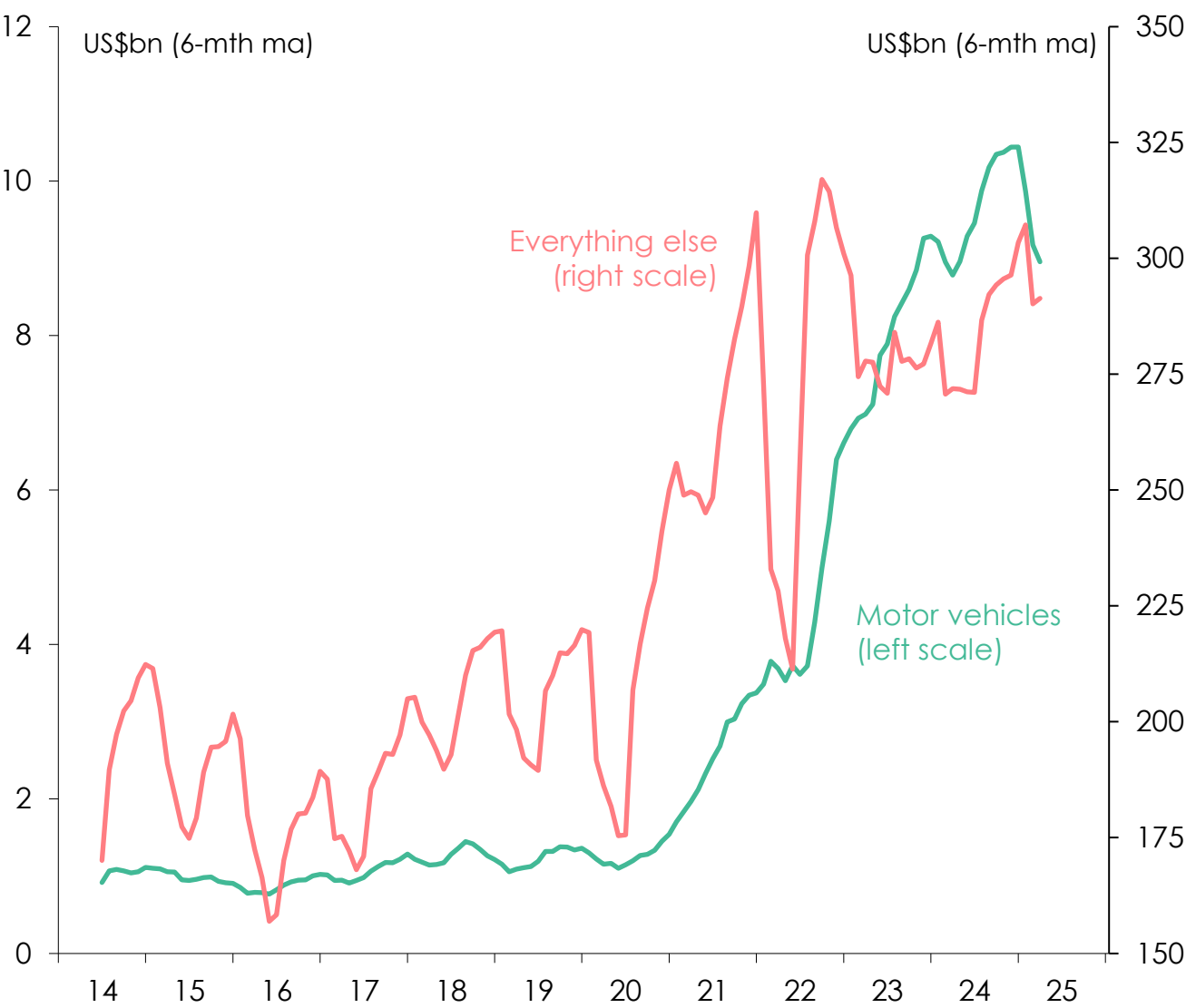
Source: [General Administration of Customs](#).

The big exception is motor vehicles – of which exports are booming (and imports are falling) – but other exports are trending sideways

China's motor vehicle exports and imports



Motor vehicle and other merchandise exports

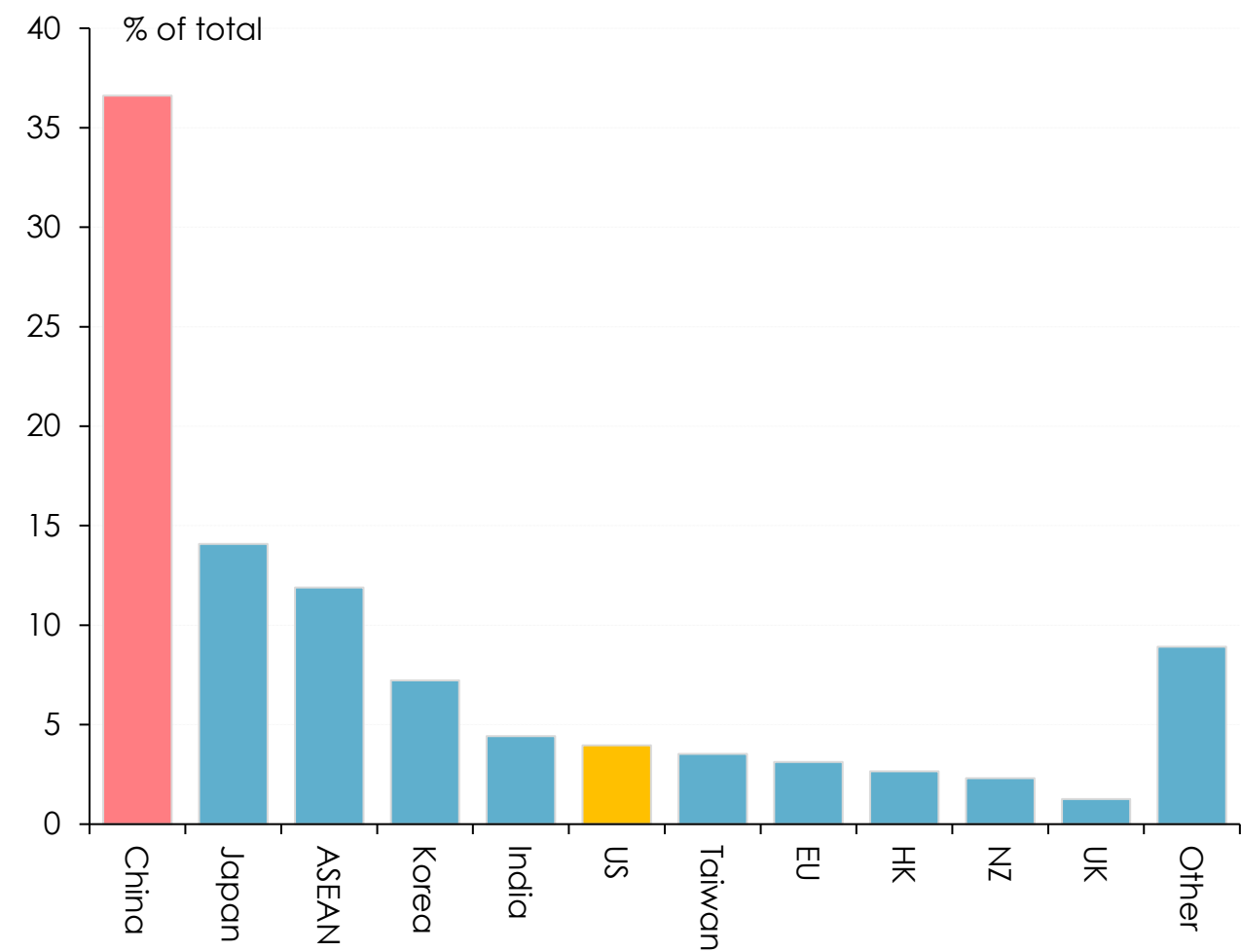


Sources: China [National Bureau of Statistics](#); [General Administration of Customs](#).

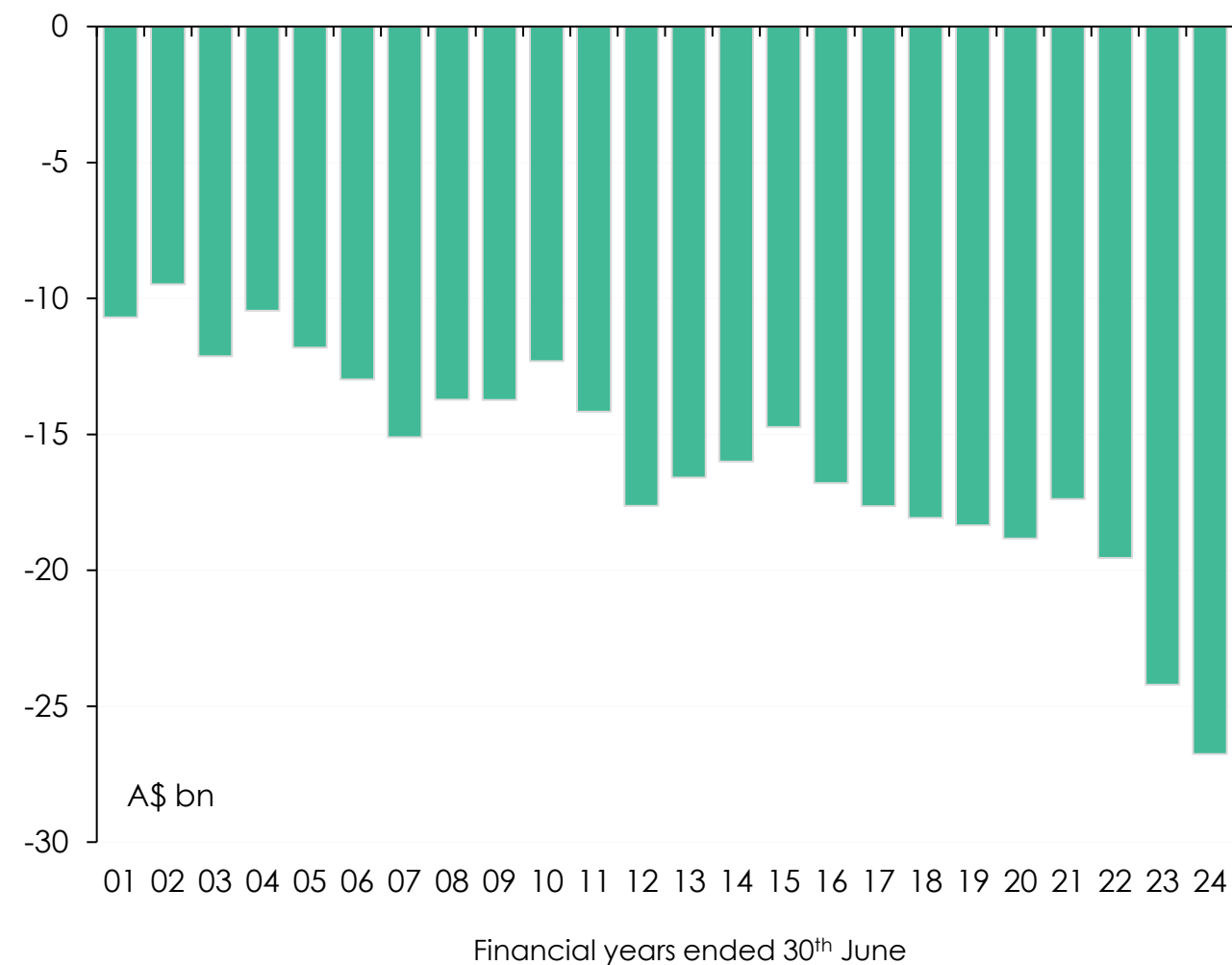
The Australian economy

Only 4% of Australia's goods exports are to the US – and Australia is one of very few countries that runs a trade deficit with the US

Direction of Australia's merchandise exports, 2023-24



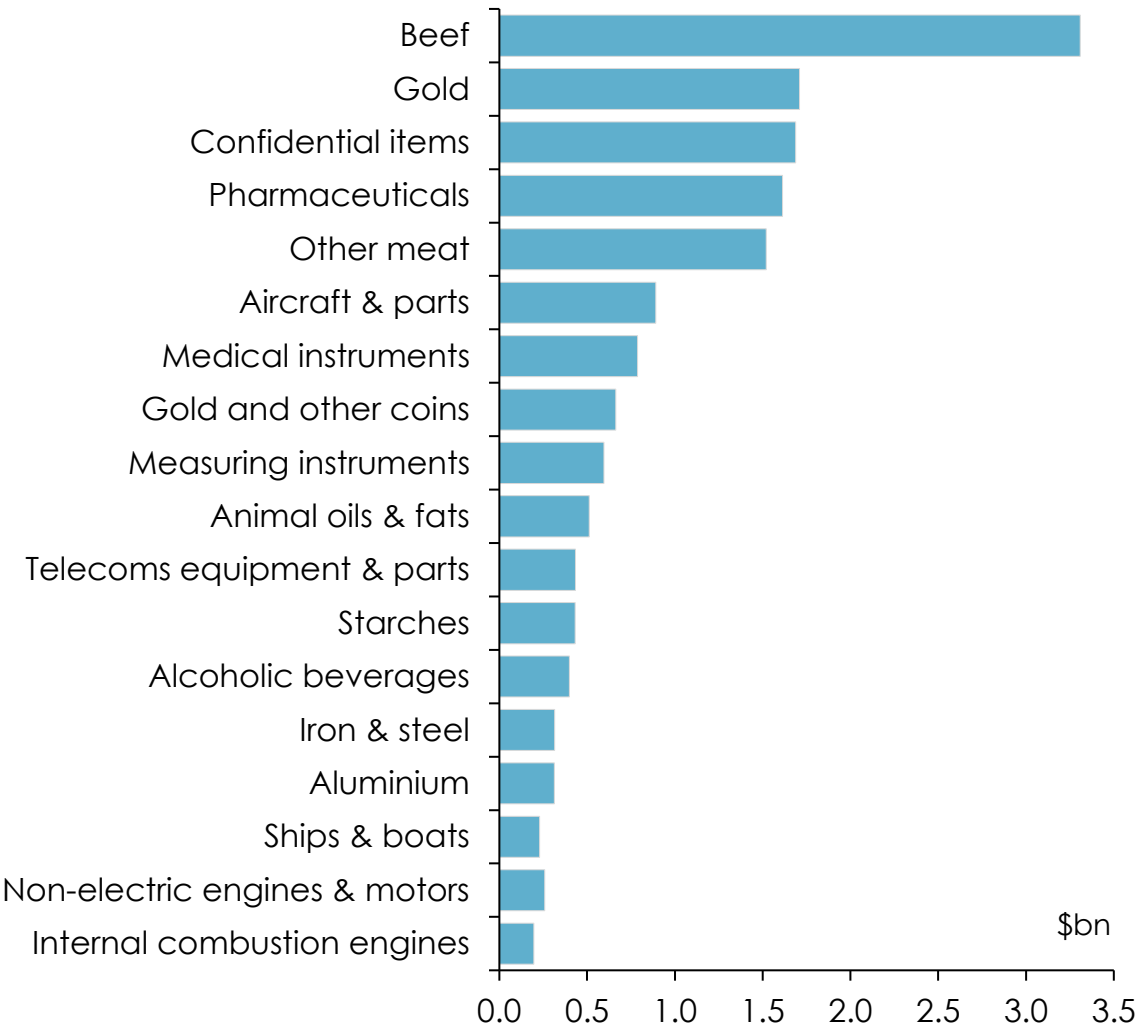
Australia's merchandise trade balance with the United States



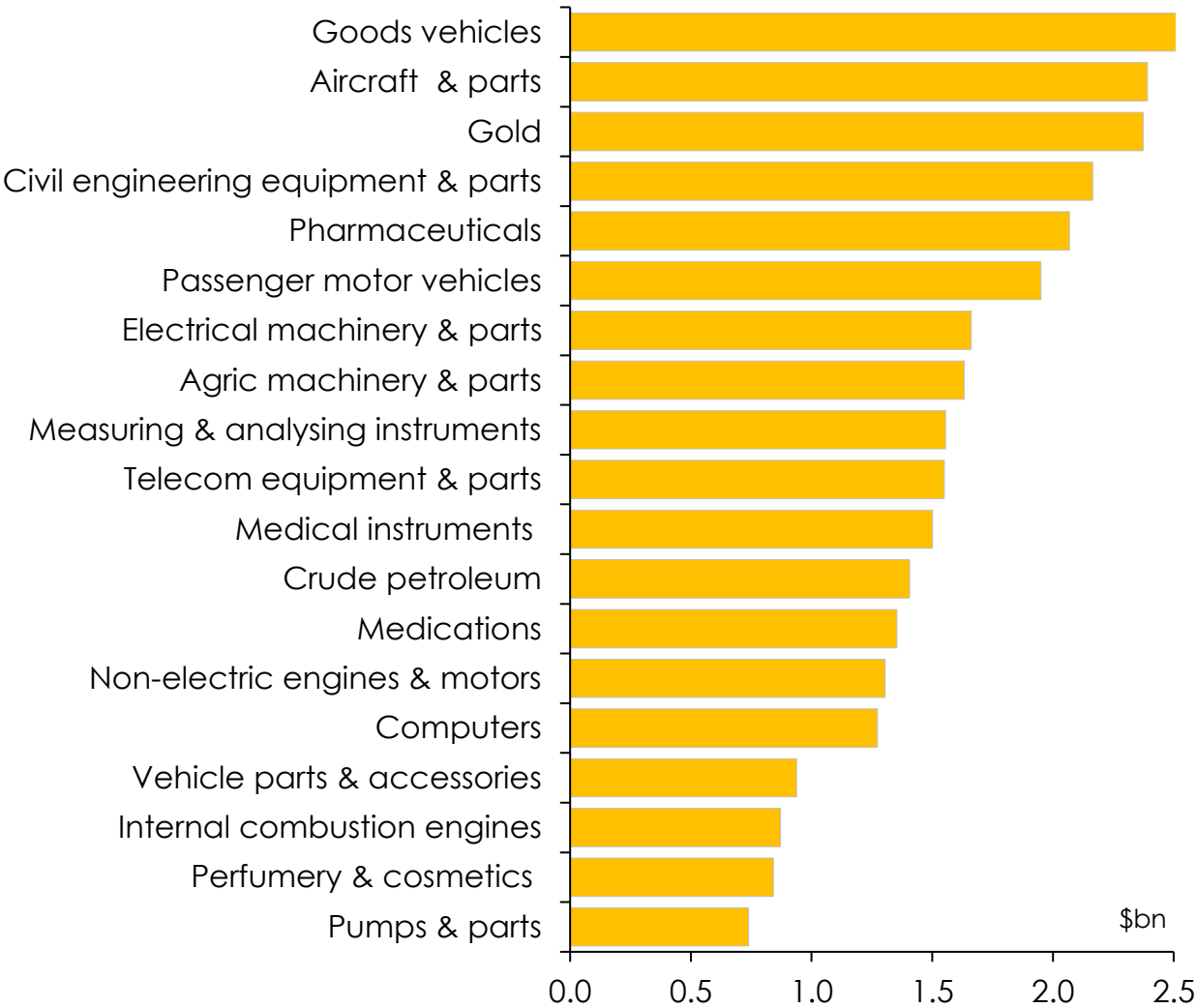
Source: ABS, [International trade in goods](#), September 2024.

US tariffs on Australian exports would primarily hit meat and manufactures – if Australia ‘retaliated’ we’d be hurting our own industries and consumers

Australia’s top exports to the United States, 2023-24

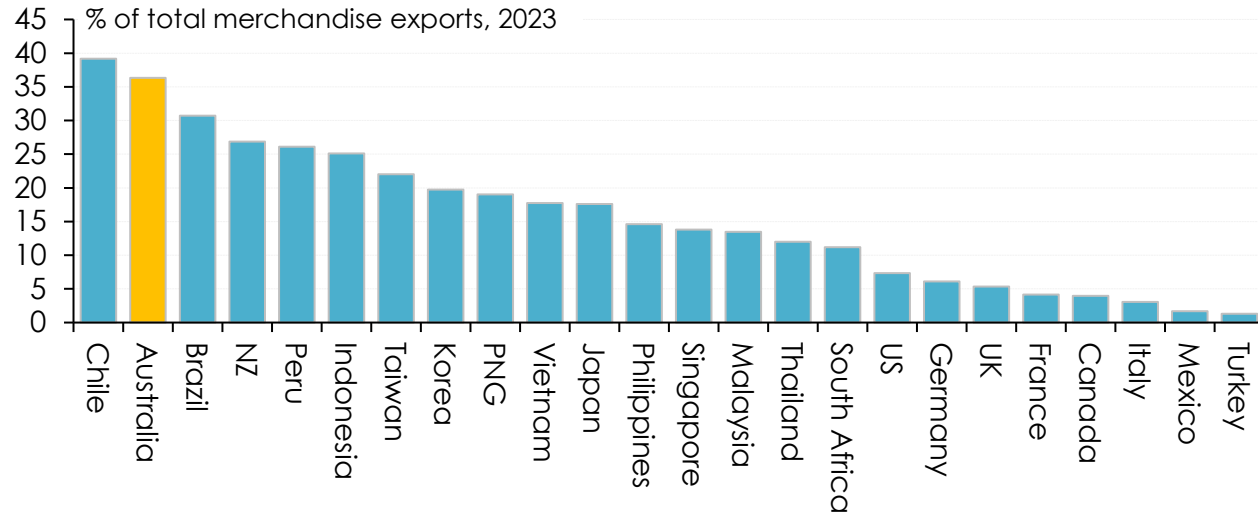


Australia’s top imports from the United States, 2023-24

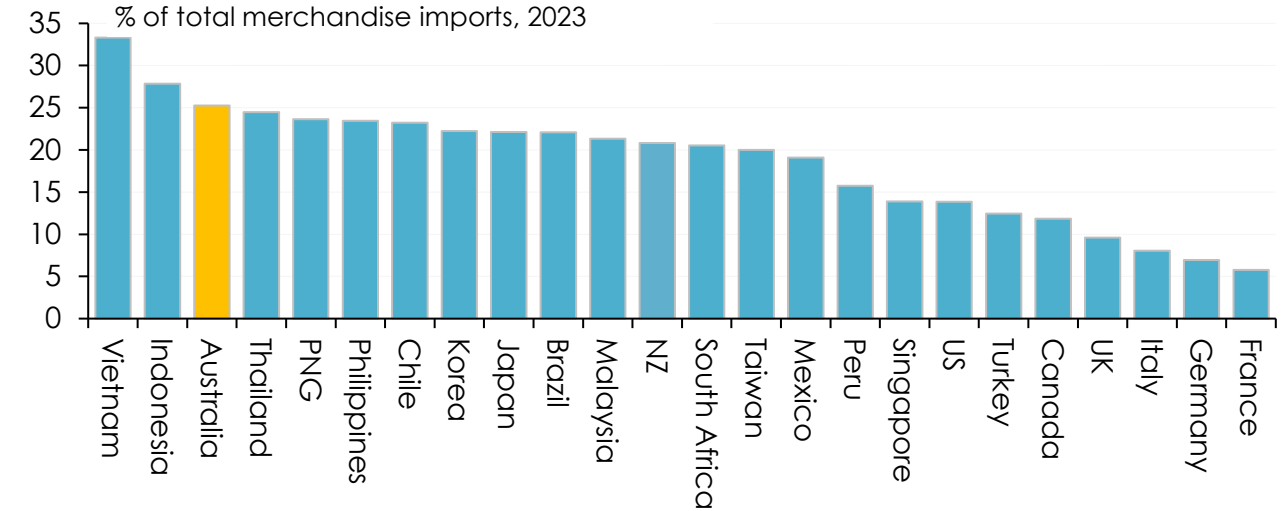


Australia is more exposed to a protracted slowdown in China's economy – or to trade sanctions against China – than any other 'advanced' economy

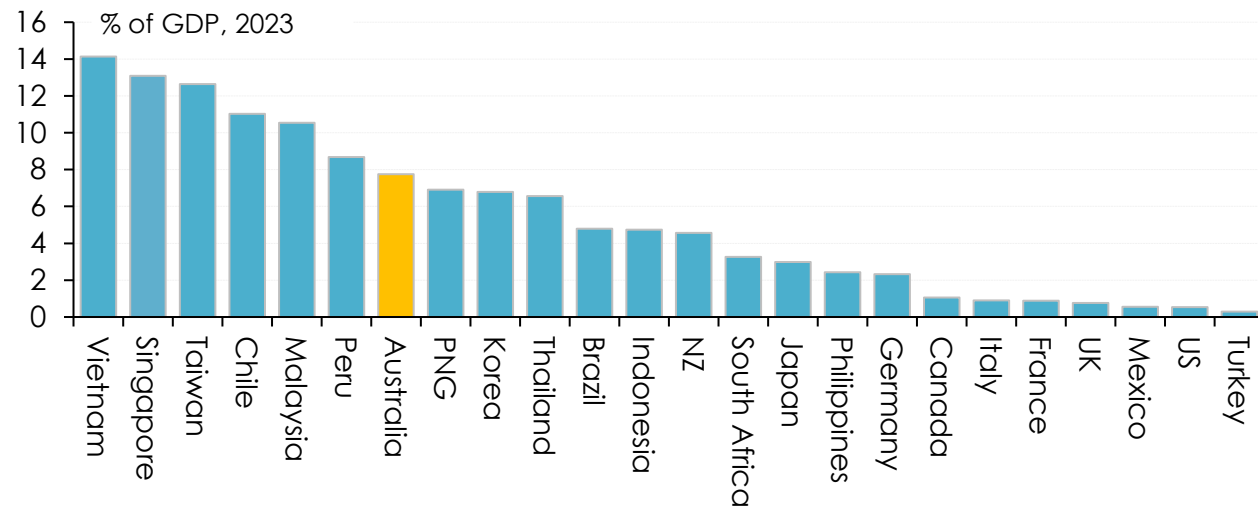
Exports to China as a pc of total exports



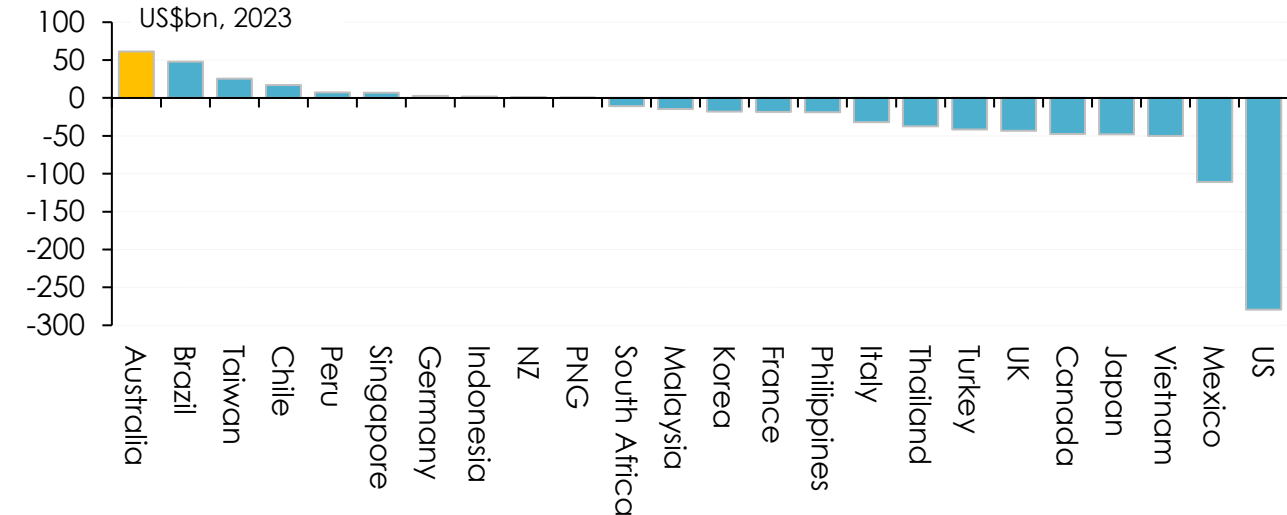
Imports from China as a pc of total imports



Exports to China as a pc of GDP

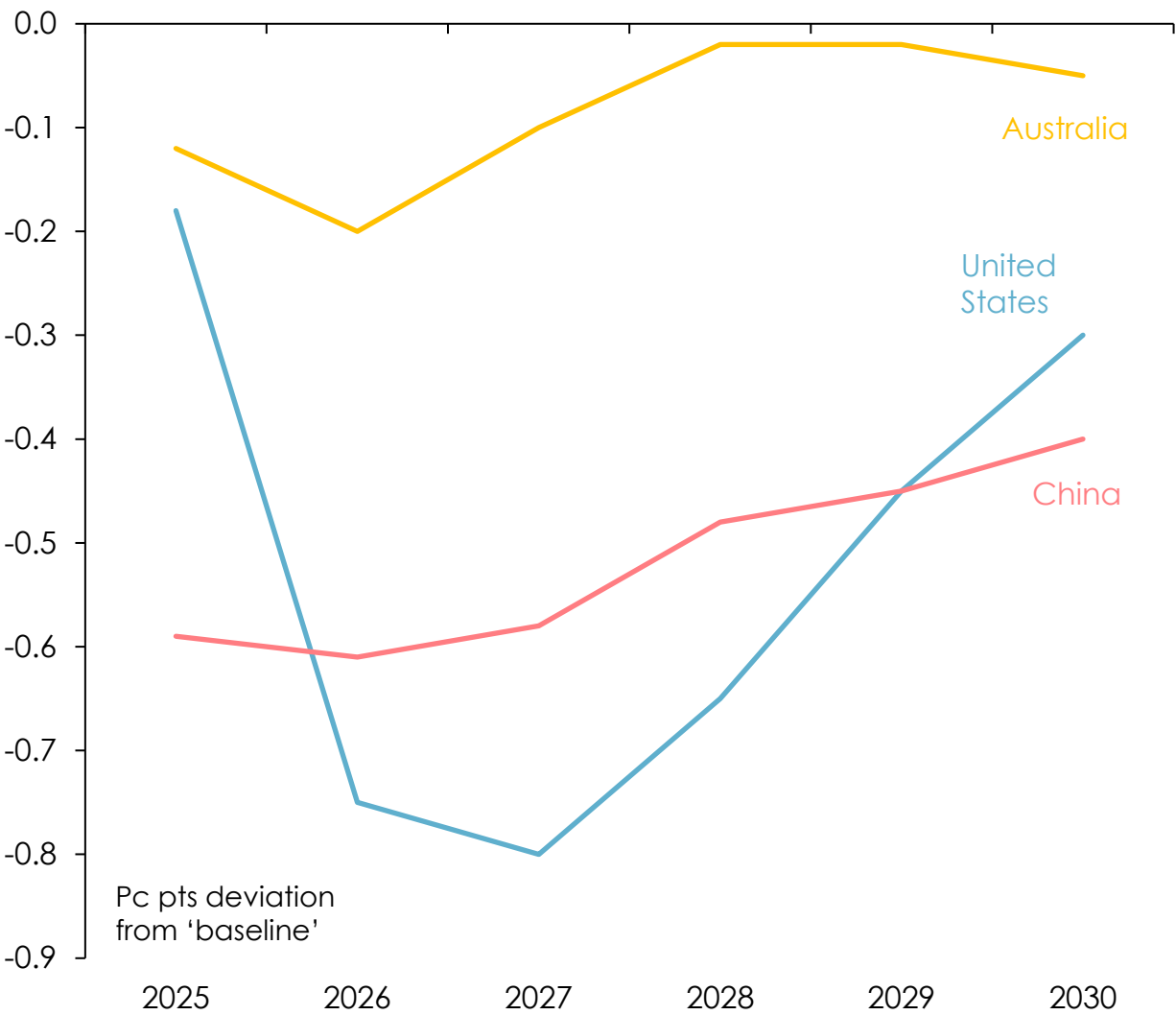


Bilateral merchandise trade balances with China

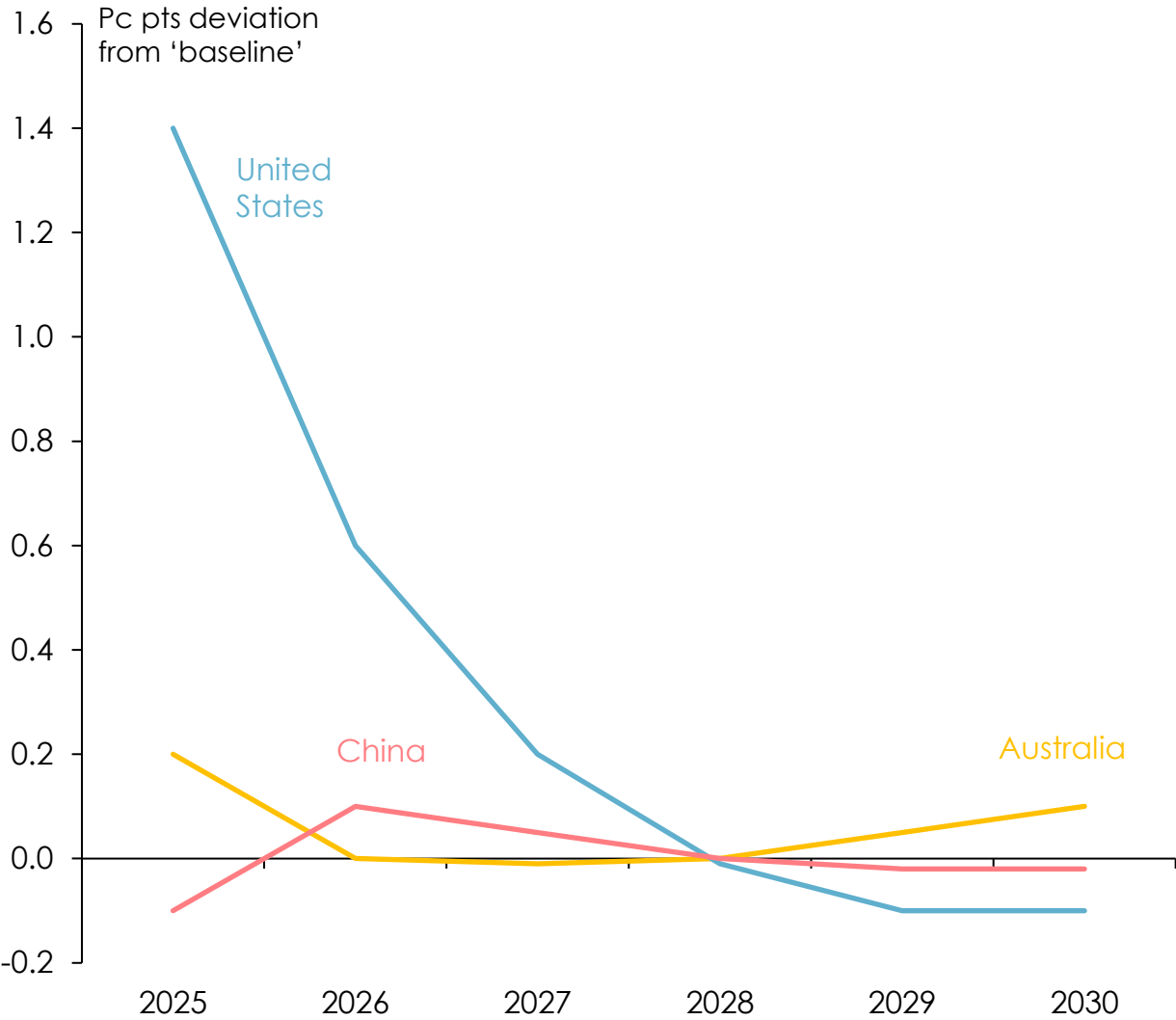


Trump's tariffs (and China's retaliation to them) will detract from growth and add to inflation – but less in Australia than in the US or China

Impact of Trump tariffs on real GDP

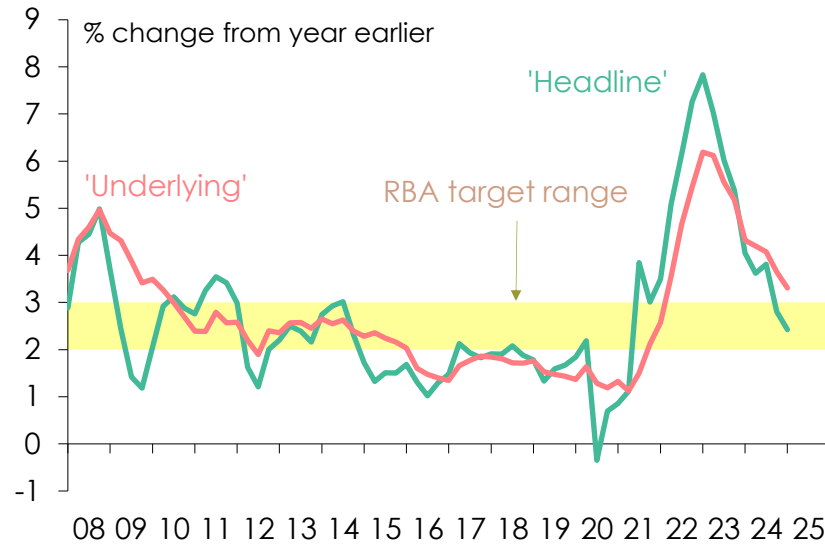


Impact of Trump tariffs on 'headline' inflation

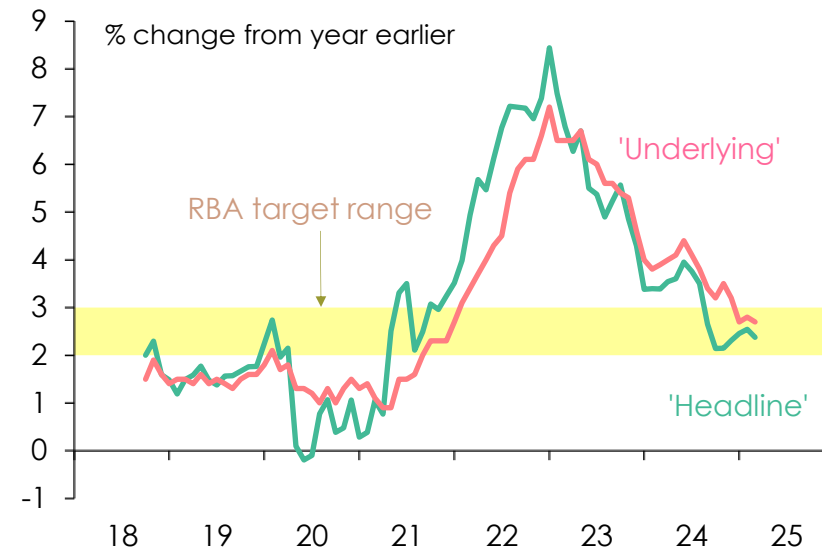


'Underlying' inflation is now back in the RBA's target range, validating the Reserve Bank's February rate cut – although not guaranteeing any more

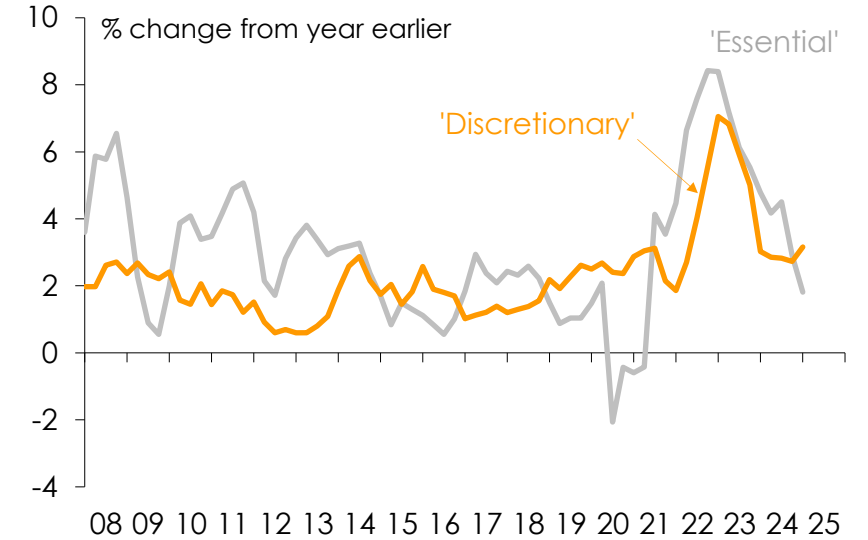
Consumer prices – annual change



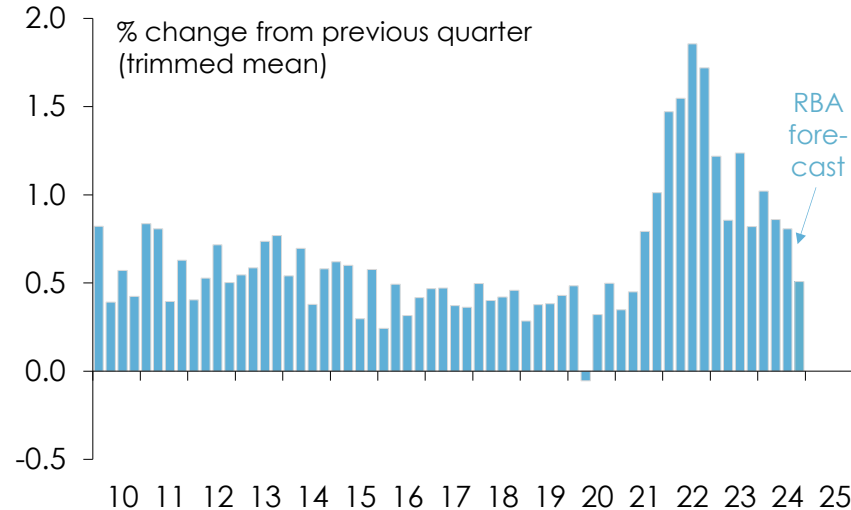
Monthly 'CPI indicator'



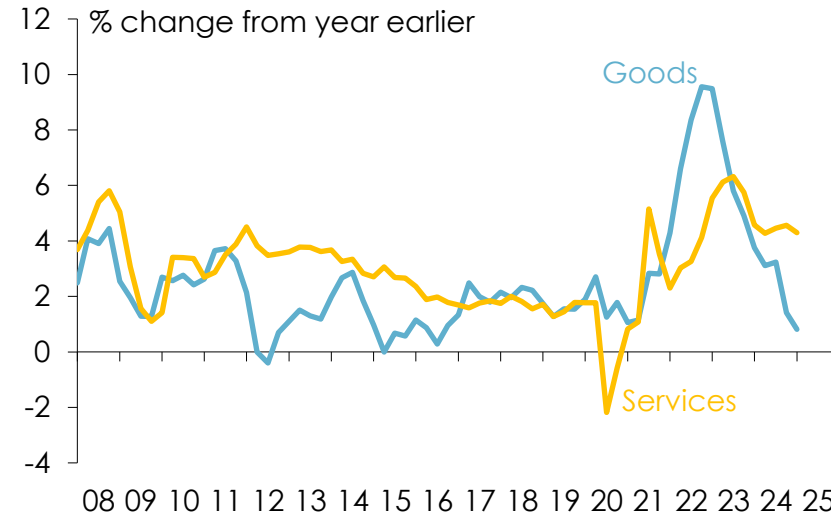
'Discretionary' vs 'essential' items



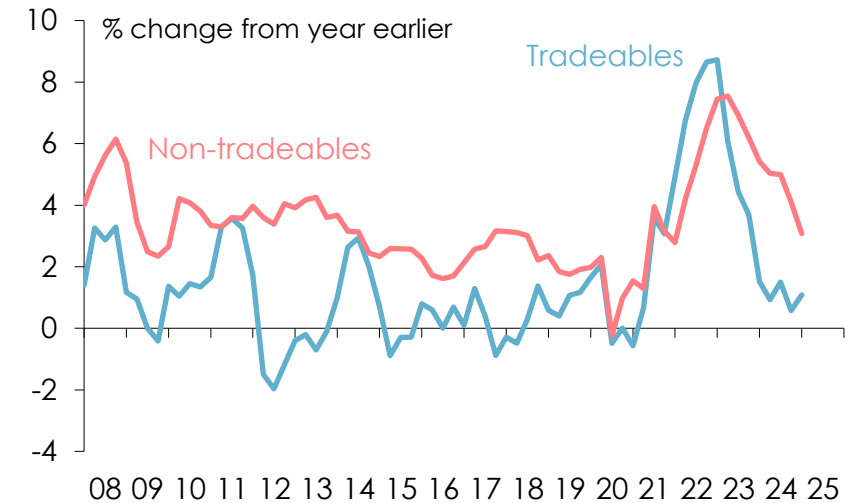
Quarterly 'underlying' inflation



Goods and services prices



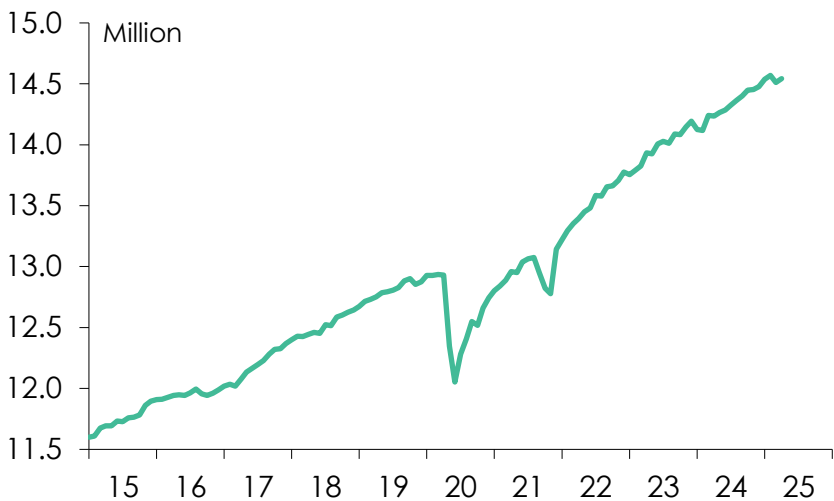
'Tradable' vs 'non-tradable' items



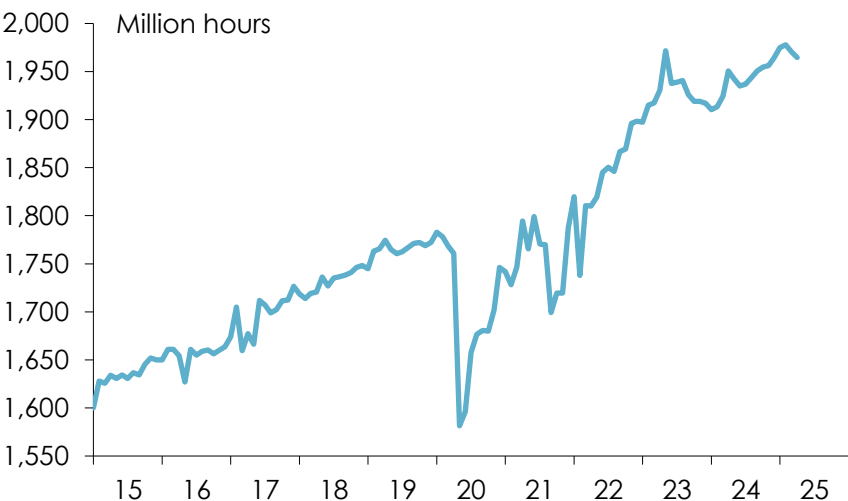
Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Sources: ABS, [Consumer Price Index](#), December quarter 2024 and [Monthly Consumer Price Index Indicator](#), February 2025.

The labour market remains very tight, but there are signs that the demand for labour has peaked

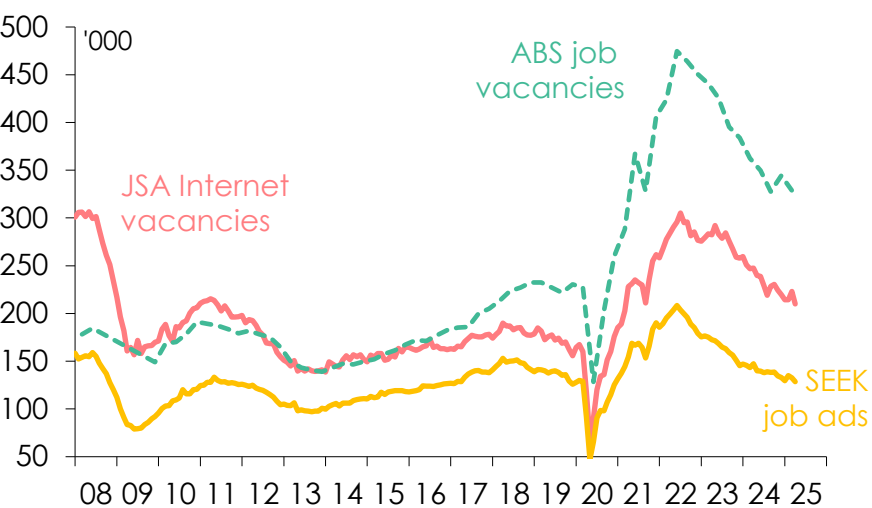
Level of employment



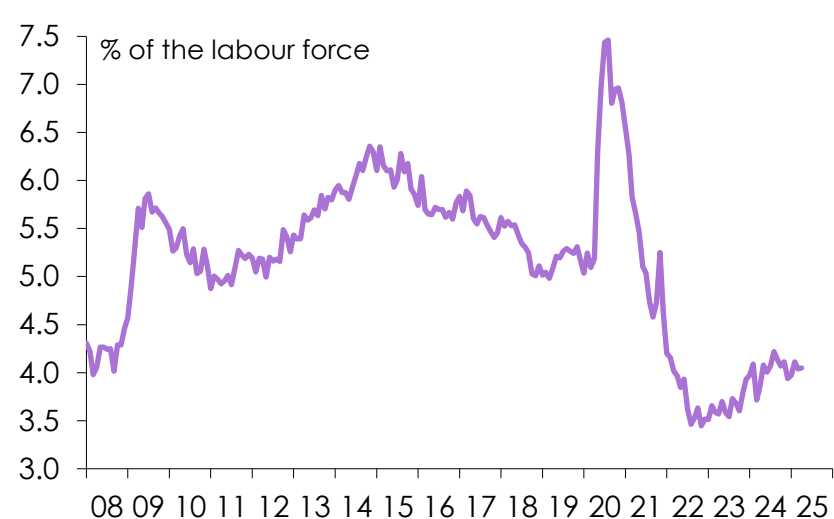
Hours worked



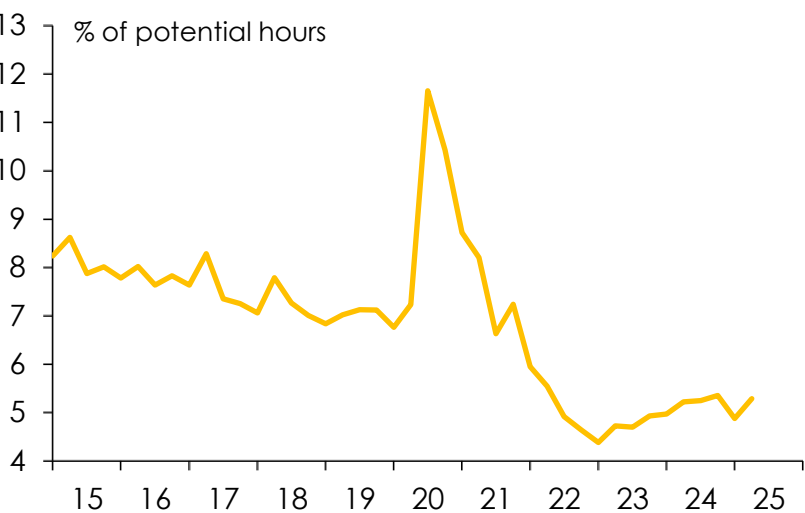
Job vacancies



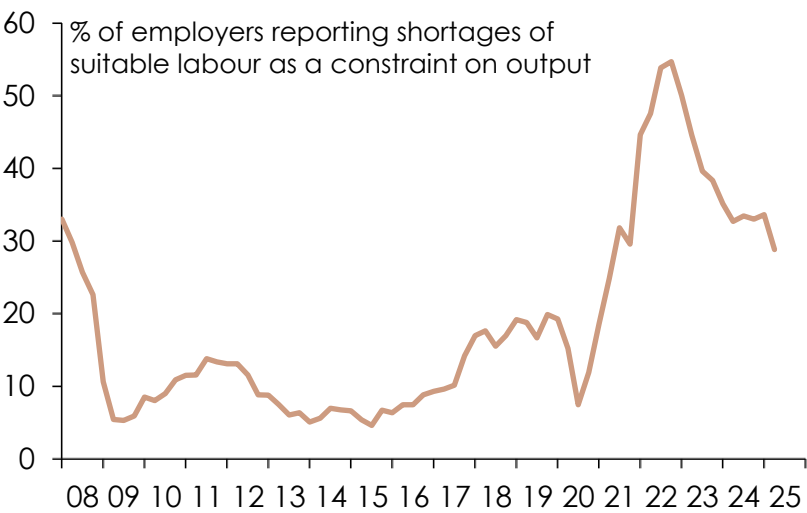
Unemployment rate



Labour force under-utilization



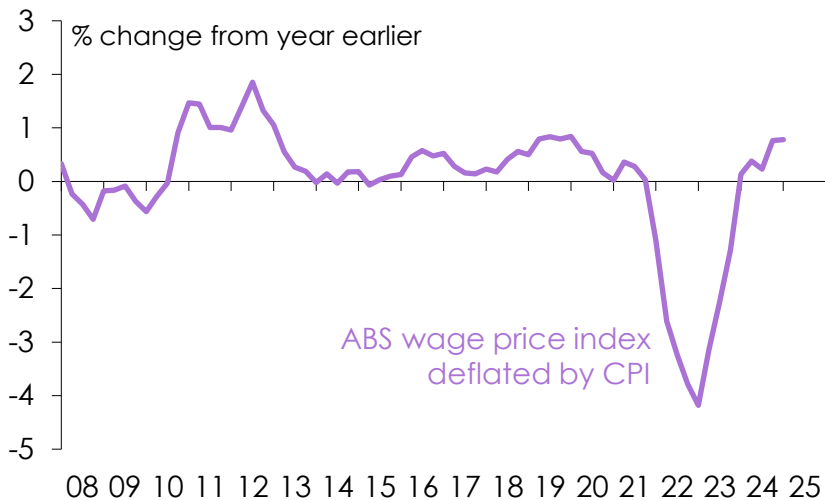
Labour shortages



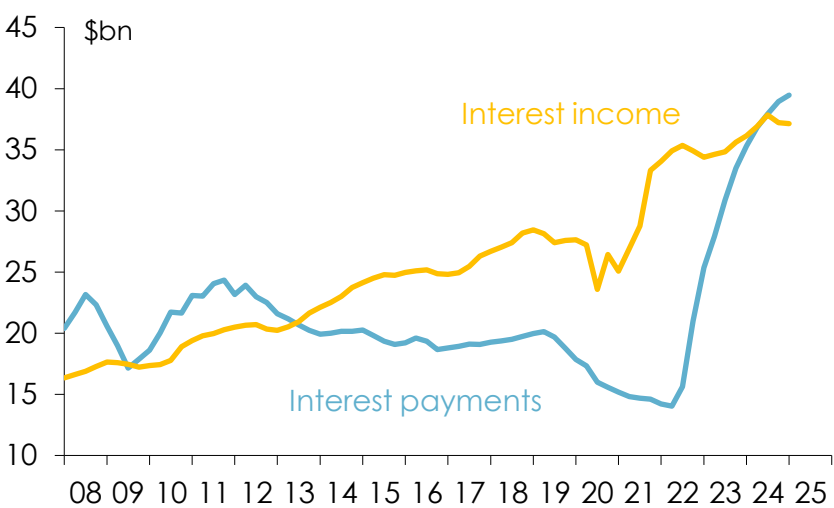
Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. Sources: ABS, [Labour Force](#), March 2025, [Job Vacancies](#), February 2025 and [Labour Account, Australia](#), December quarter 2024; National Australia Bank, [Quarterly Business Survey](#), March quarter 2025; Jobs and Skills Australia, [Internet Vacancy Index](#); SEEK, [Employment & Salary data](#).

The squeeze on household finances is starting to ease

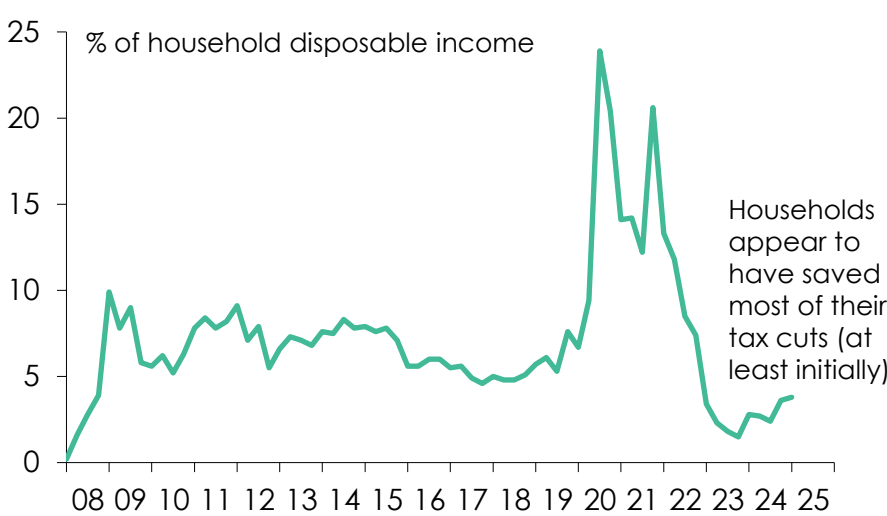
Real wages



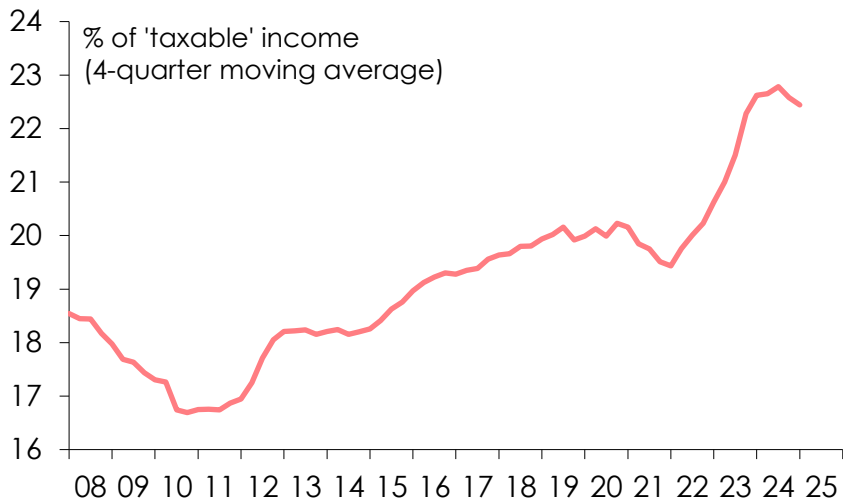
Interest income and payments



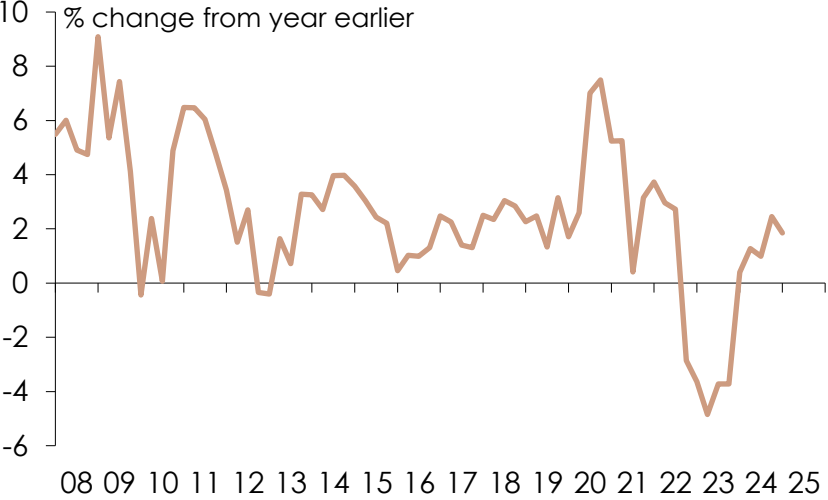
Household saving



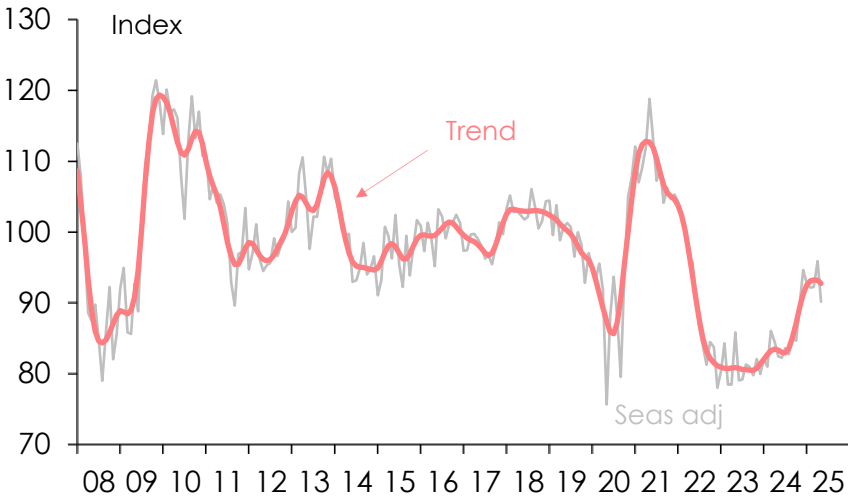
Personal income tax payments



Real household disposable income



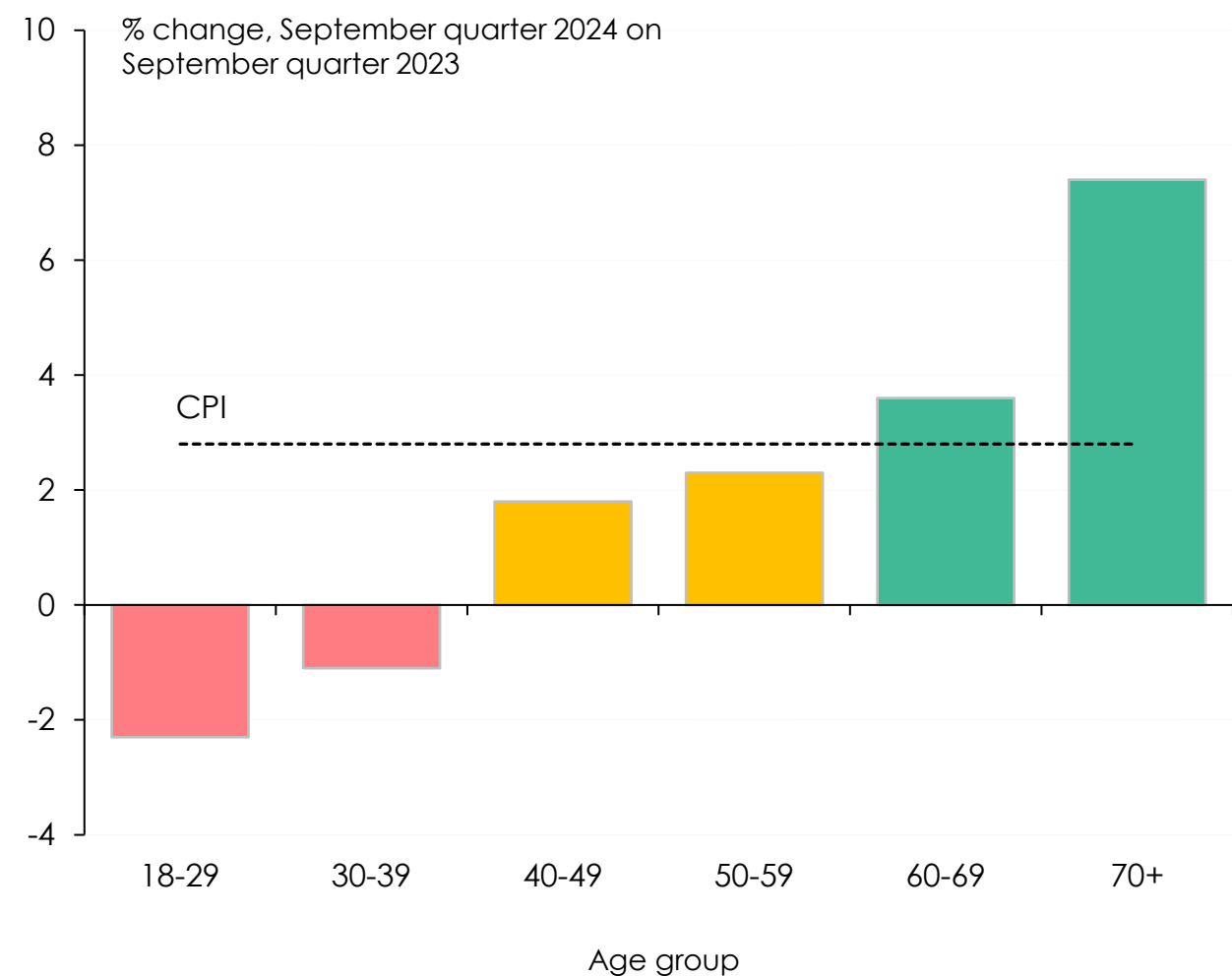
Consumer confidence



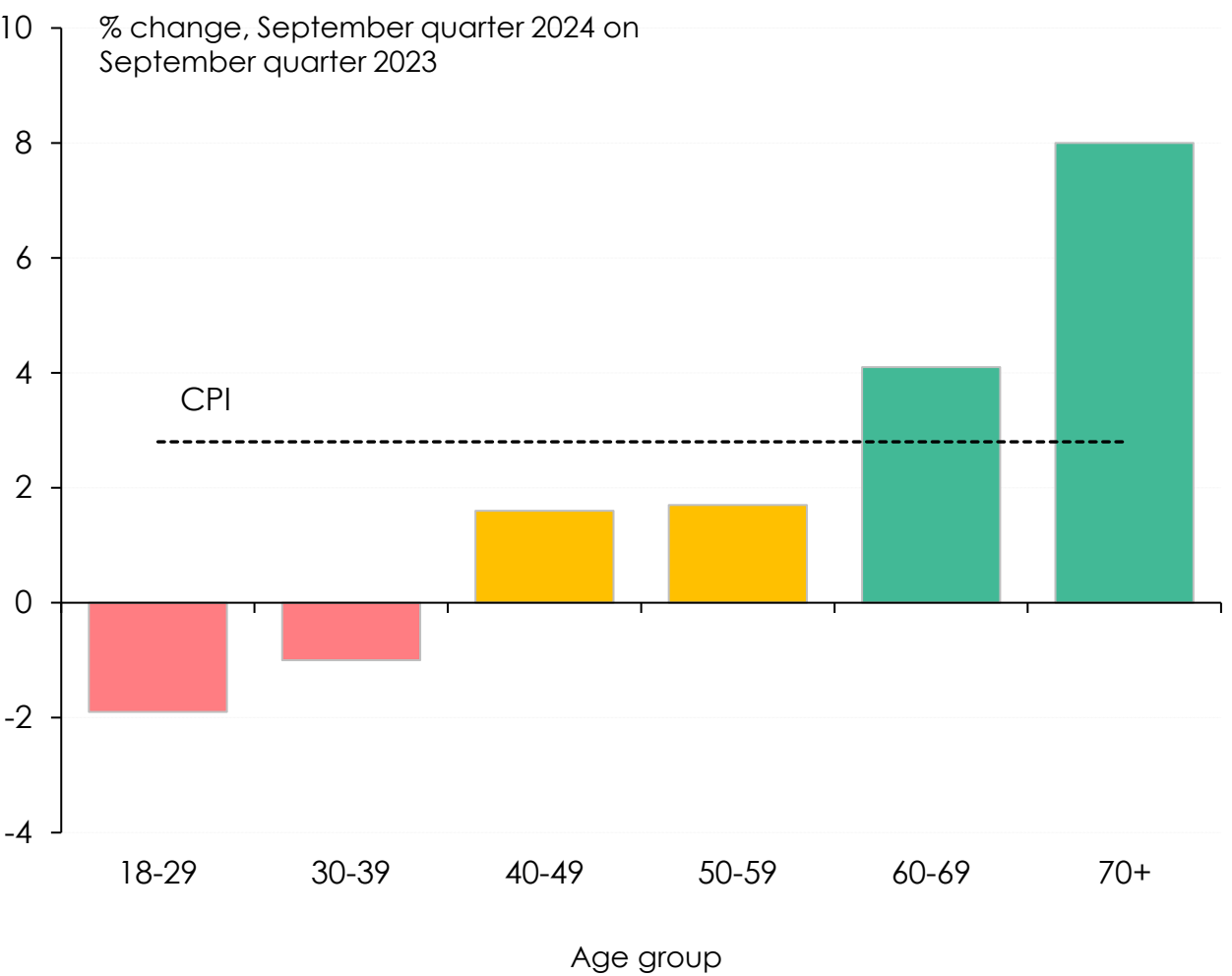
Sources: ABS, [Wage Price Index](#), December quarter 2024, [Consumer Price Index](#), December quarter 2024 and [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2024; Westpac, [Westpac-MI Consumer Sentiment](#), April 2025.

Younger households have borne the brunt of the ‘cost of living crisis’ while older households have been very little affected

Per capita spending on ‘essential’ items by age cohort, year ended September quarter 2024



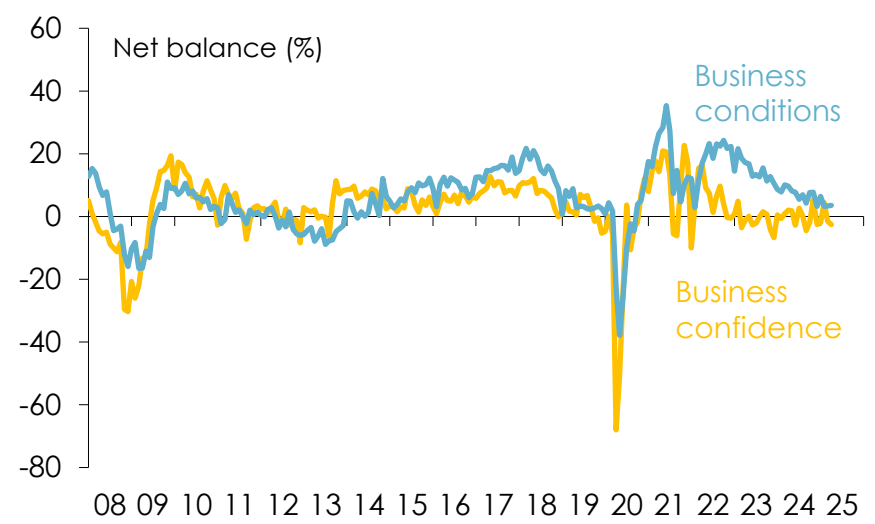
Per capita spending on ‘discretionary’ items by age cohort, year ended September quarter 2024



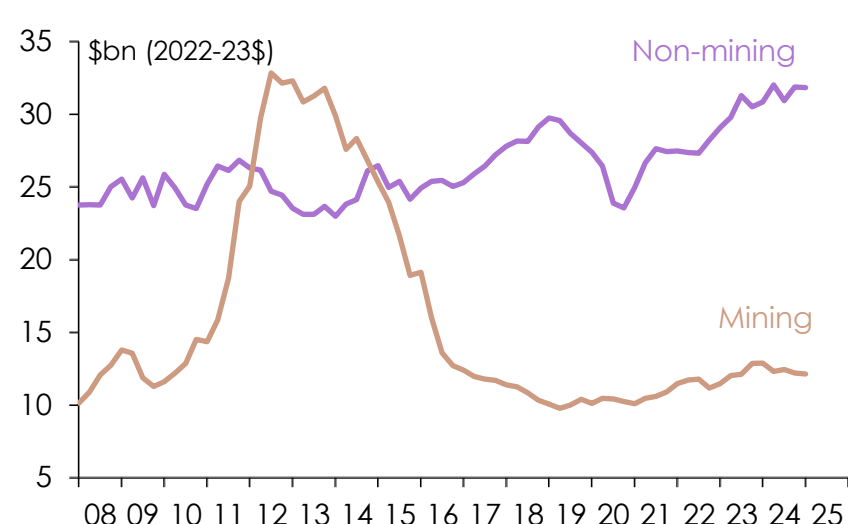
Source: Commonwealth Bank of Australia, [CommBank iQ Cost of Living Insights](#), November 2024. Data derived from transactions by CBA customers.

Business confidence remains fairly fragile, but despite that, capital investment is picking up, especially outside the mining sector

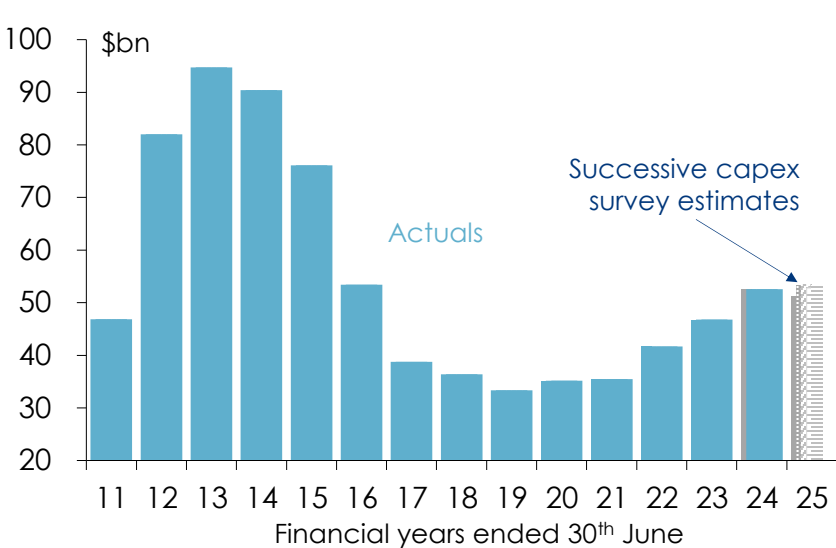
Business conditions & confidence



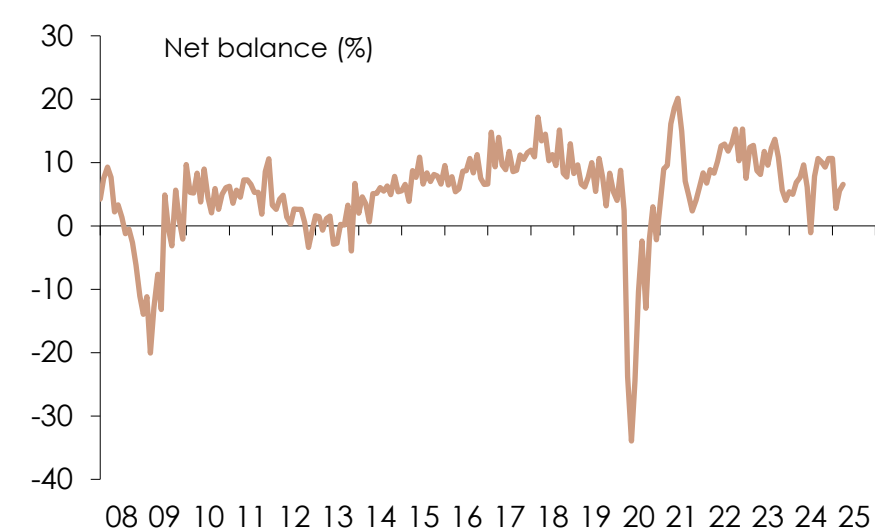
Capital expenditure by sector



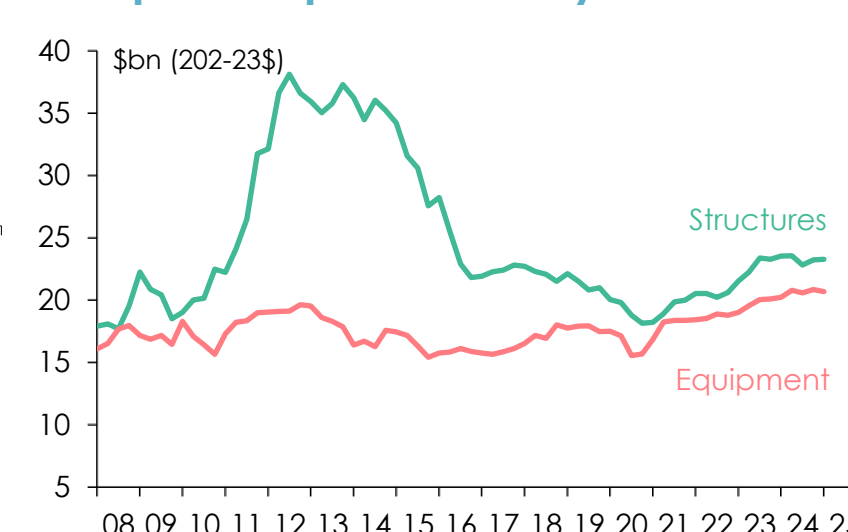
ABS capex intentions - mining



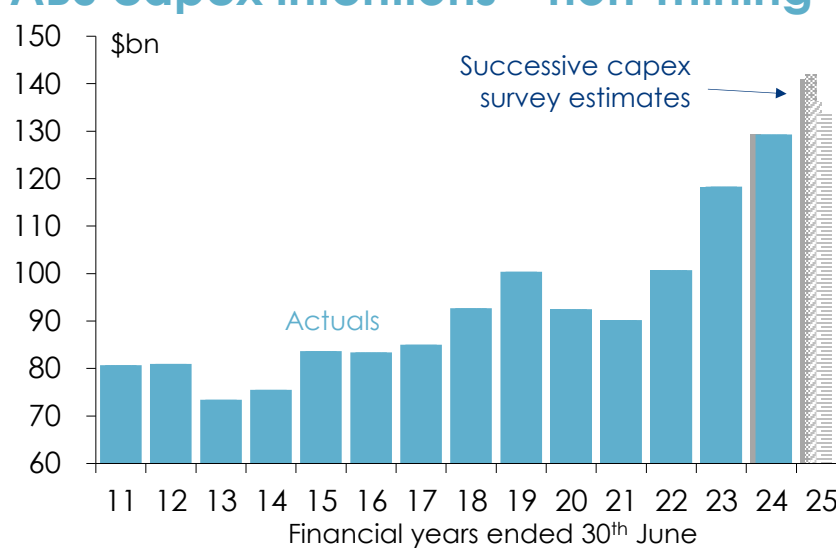
NAB Survey capex intentions



Capital expenditure by asset



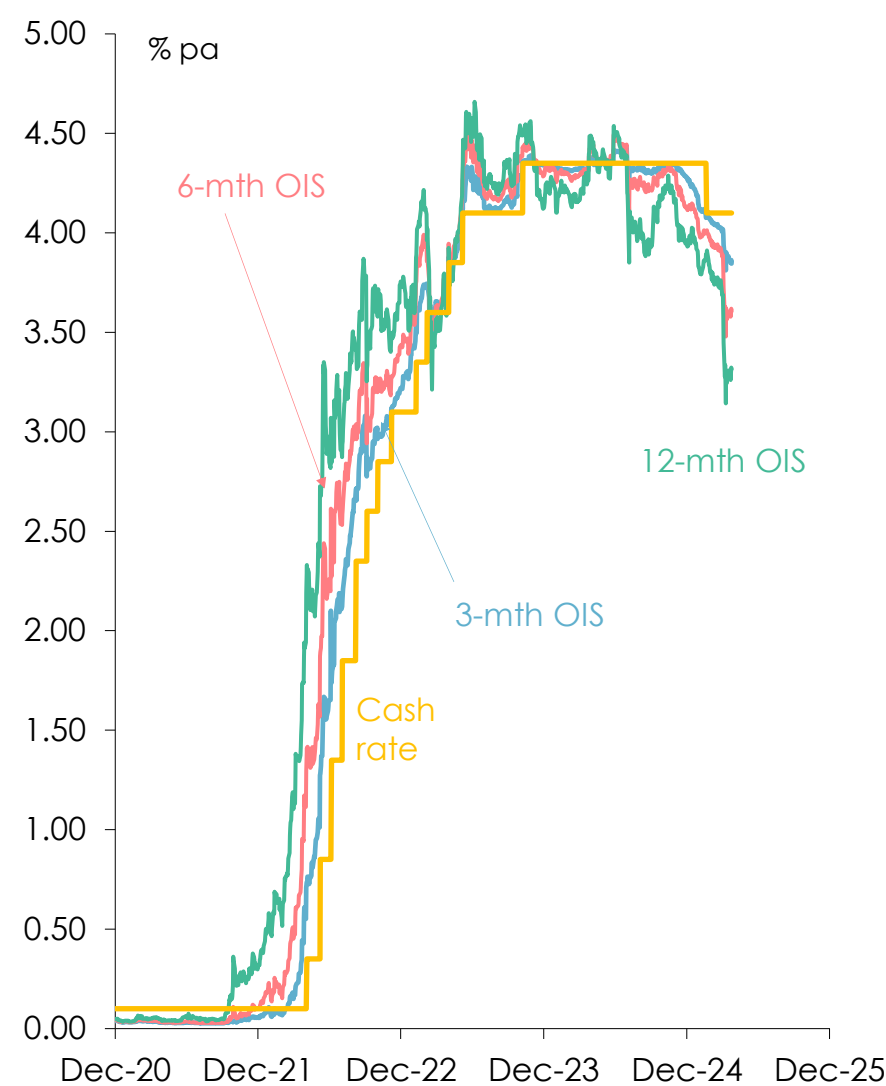
ABS capex intentions – non-mining



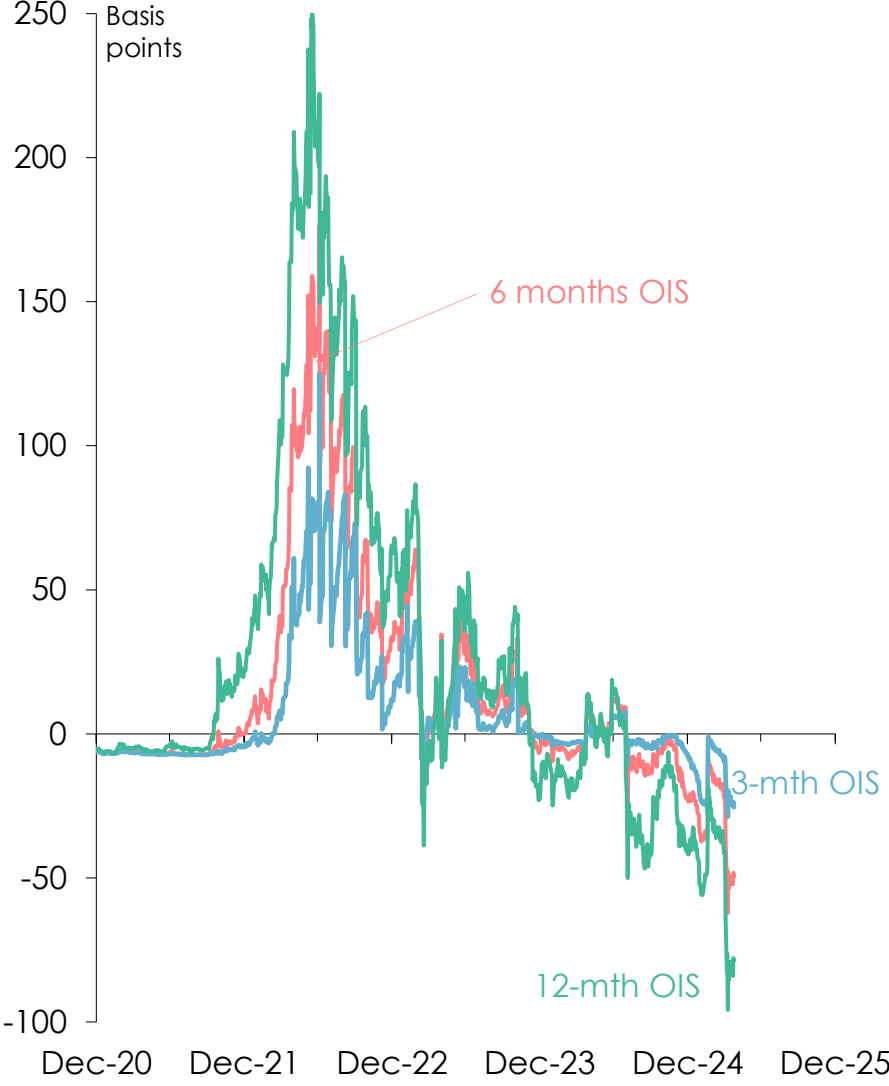
Sources: NAB, [Monthly Business Survey](#), March 2025; ABS, [Private New Capital Expenditure and Expected Expenditure](#), December quarter 2024. Note: estimates of capex in 2024-25 assume that successive expectations are realized to the same extent as they have been on average over the five years to 2023-24.

Financial markets are expecting more interest rate cuts because of the looming downturn in the global economy from Trump's tariffs

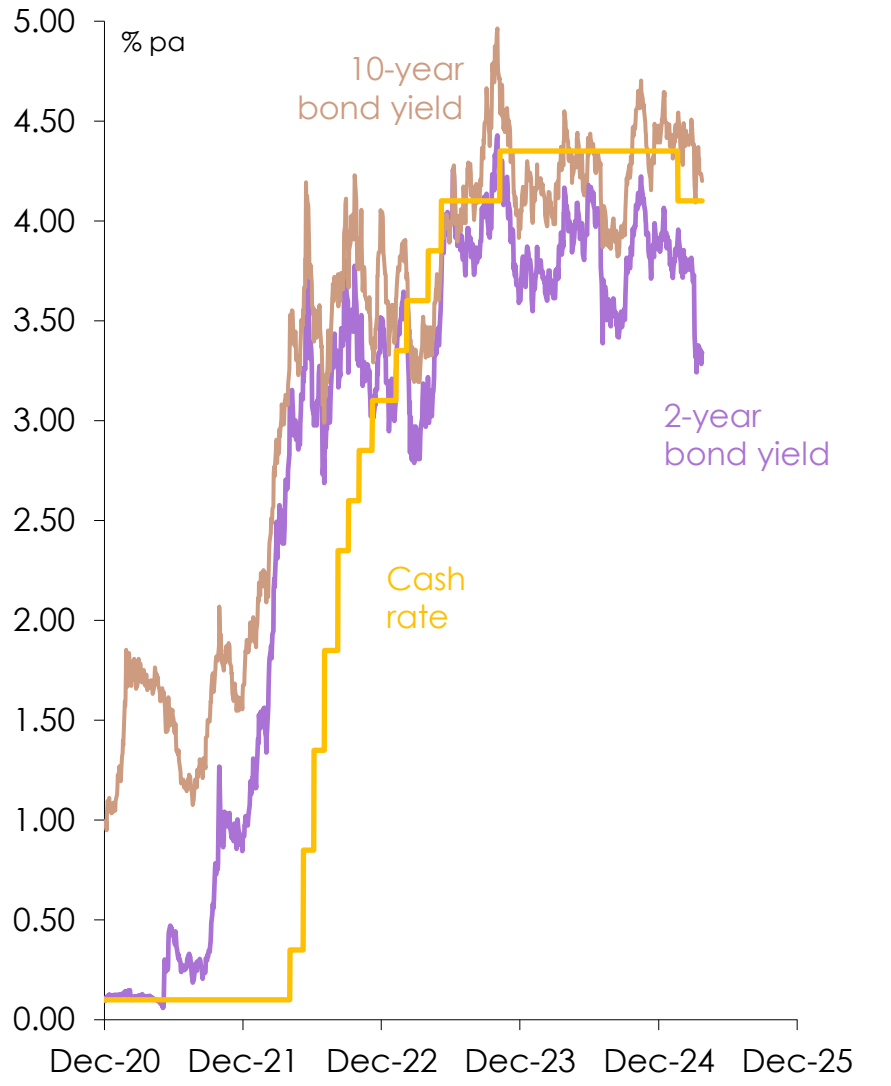
RBA cash rate vs OIS rates



OIS-cash rate spreads



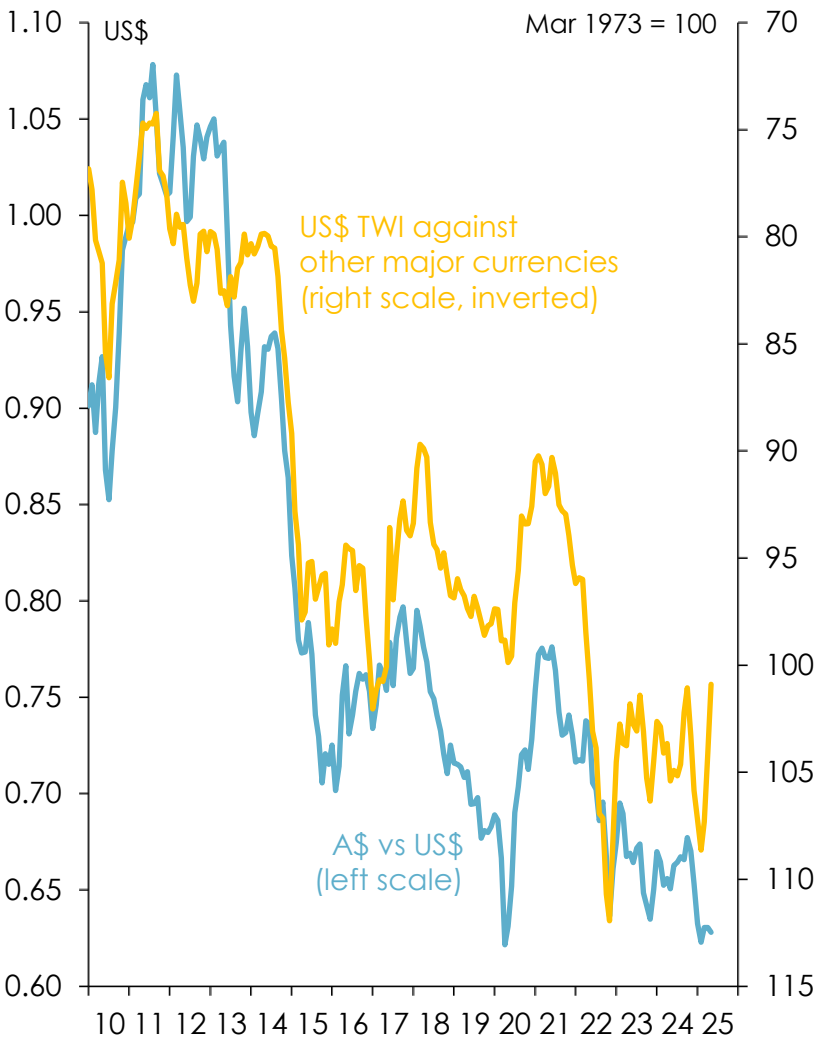
RBA cash rate vs bond yields



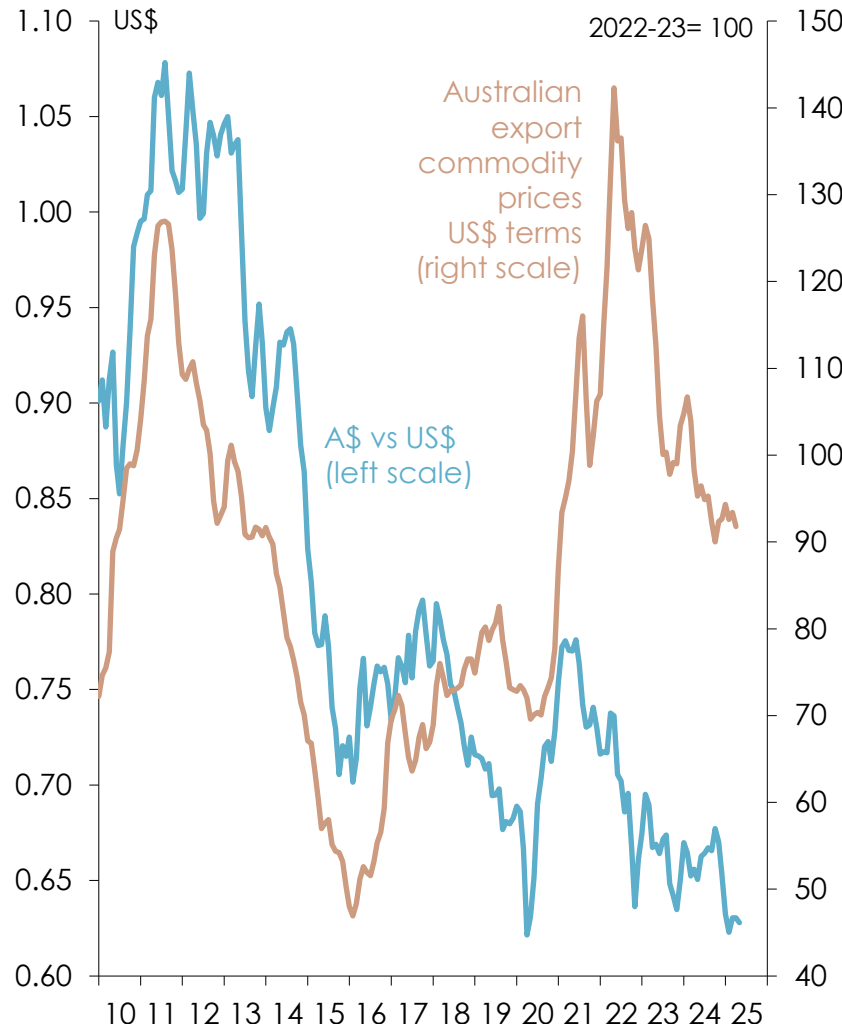
Note: 'OIS' (overnight index swaps) are a form of financial derivative in which one party agrees to pay the other a fixed interest rate in exchange for receiving the average cash rate recorded over the term of the swap: it therefore reflects market expectations of how the cash rate will move over the period of the swap. For more information see [here](#). Sources: Reserve Bank of Australia, [Interest rates](#); Refinitiv Datastream.

The A\$ hasn't reflected the fall in the US\$, because commodity prices have continued declining and markets are pricing more RBA rate cuts

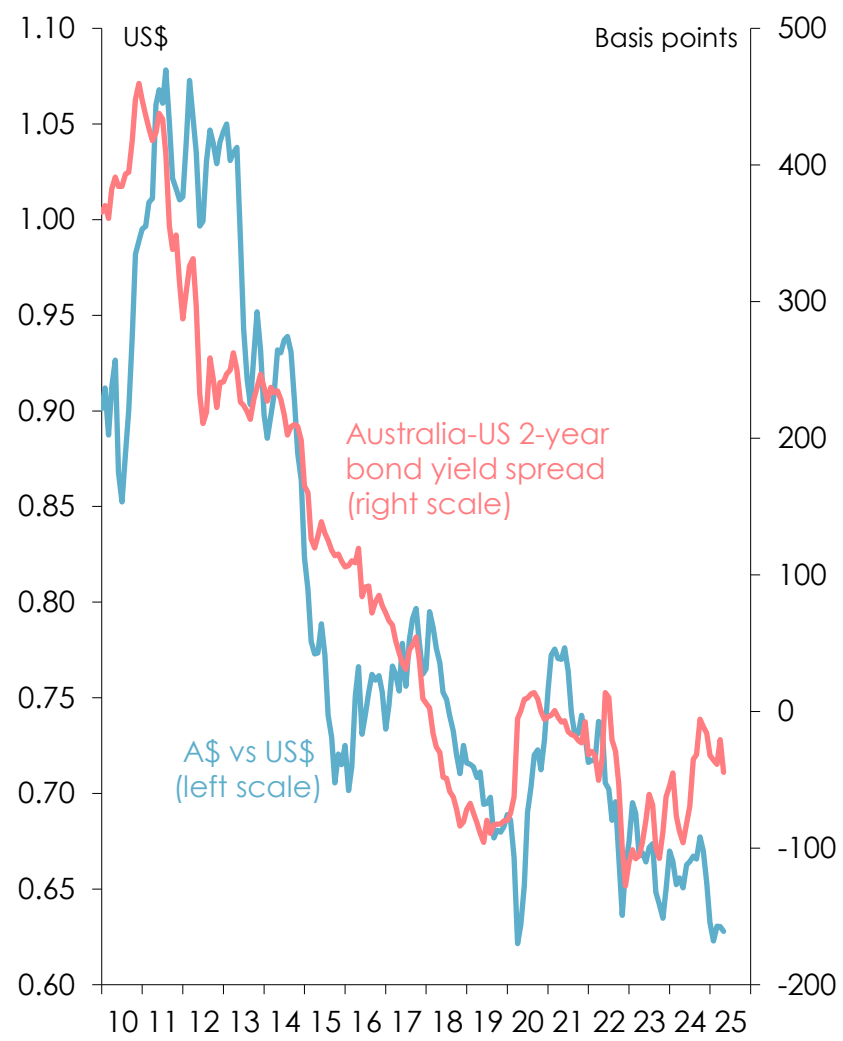
A\$-US\$ and US\$ trade-weighted index



A\$-US\$ and Australian export commodity prices



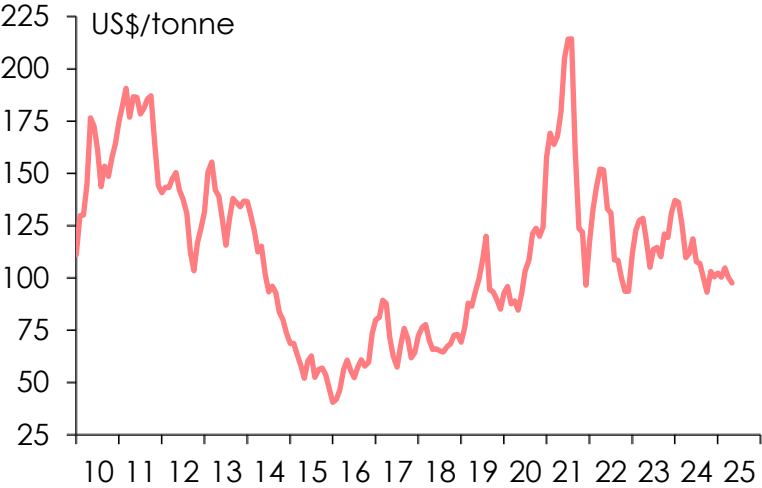
A\$-US\$ and Australia-US 2-year bond yield spread



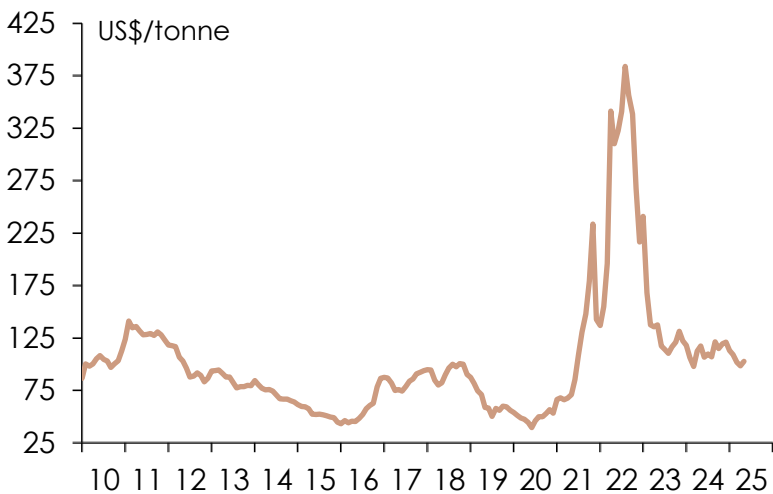
Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc).
Sources: [Reserve Bank of Australia](#); [US Federal Reserve](#).

Prices of Australia's principal mineral & energy exports are well off their peaks and seem likely to decline further in 2025

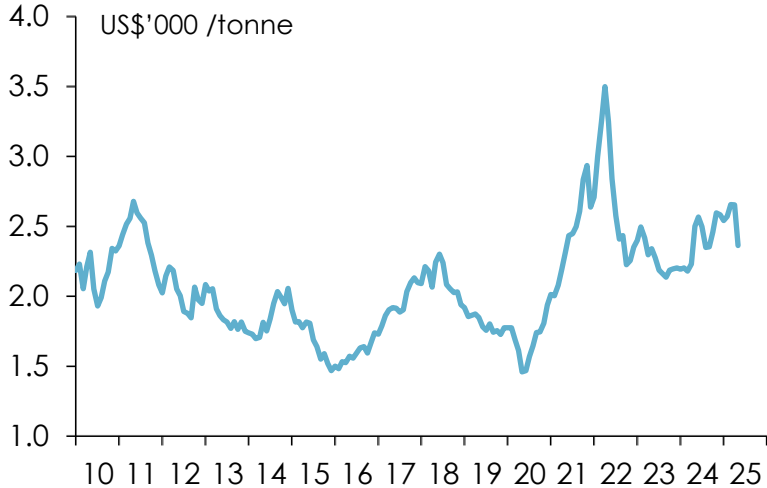
Iron ore



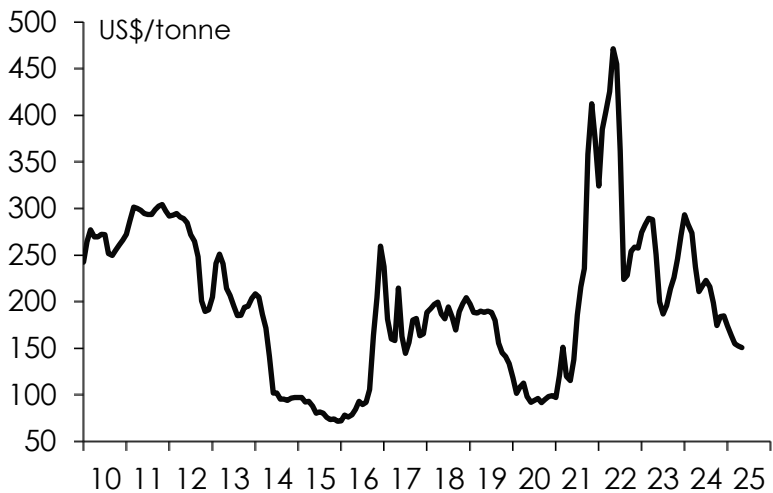
Thermal (steaming) coal



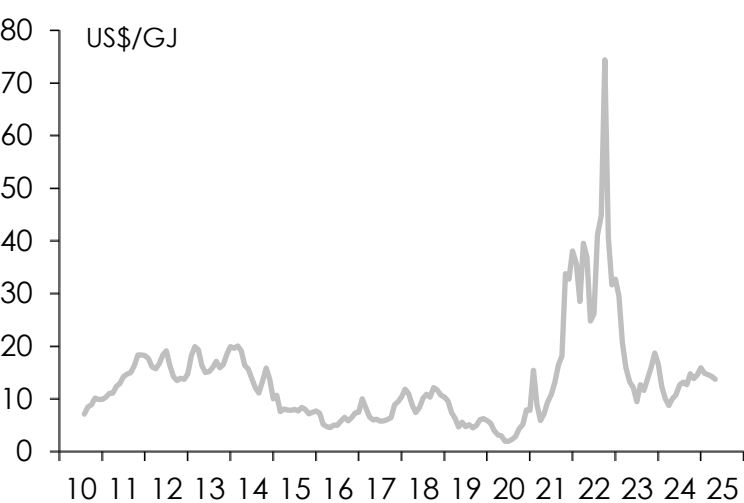
Aluminium



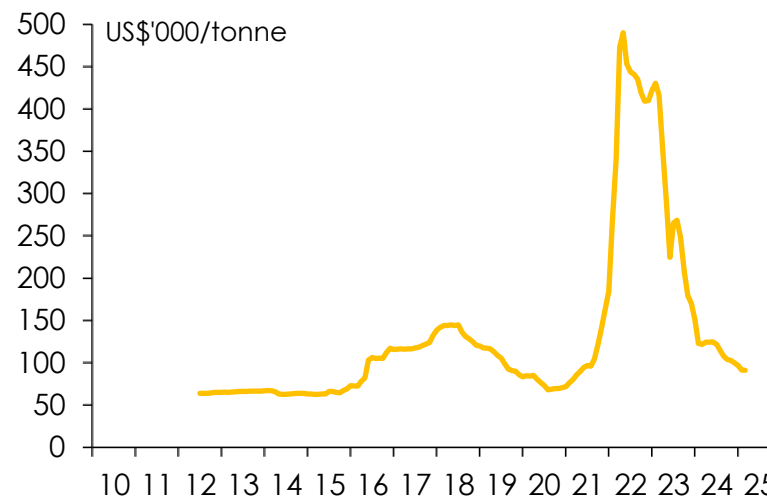
Metallurgical (coking) coal



Liquefied natural gas (LNG)

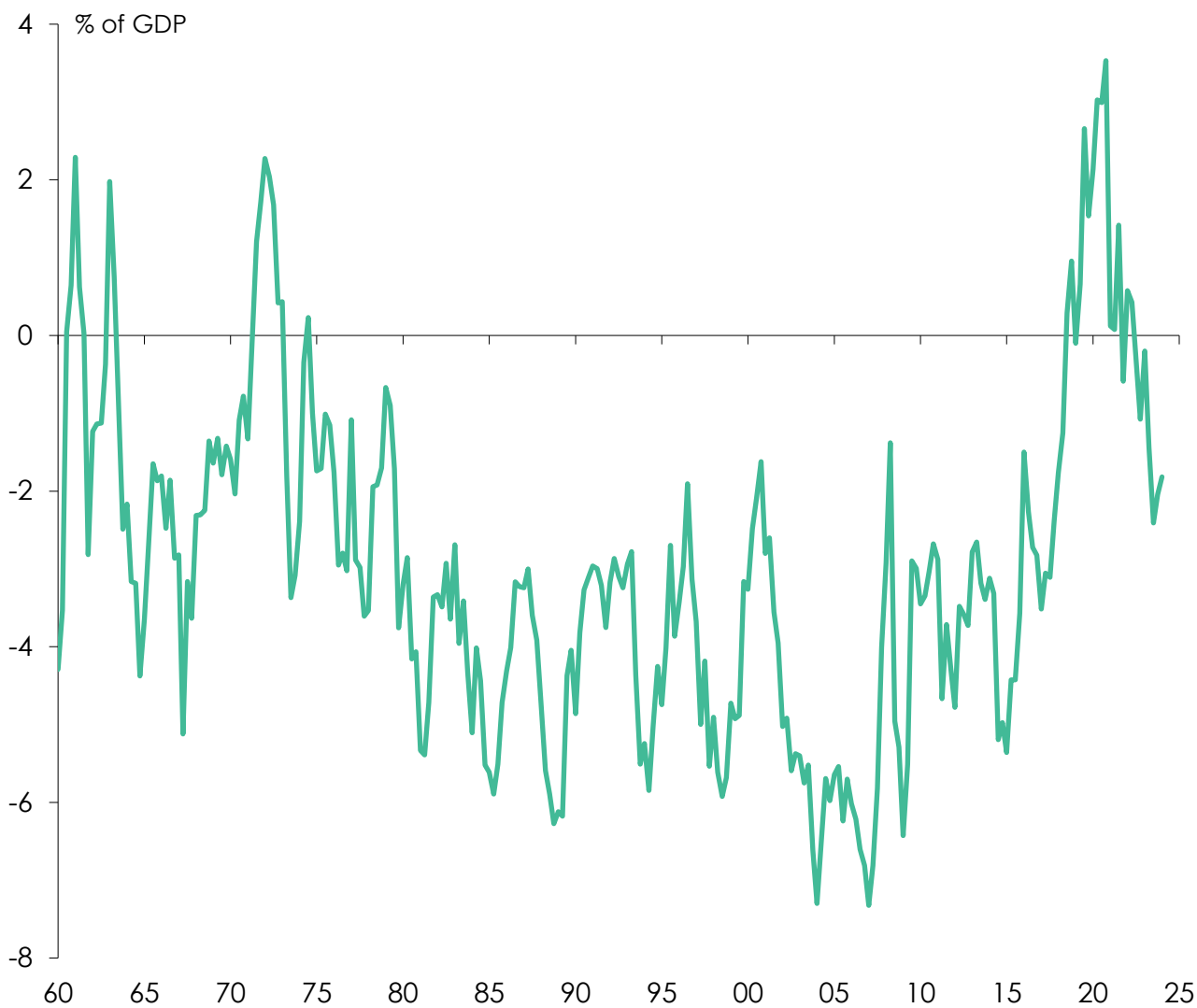


Lithium

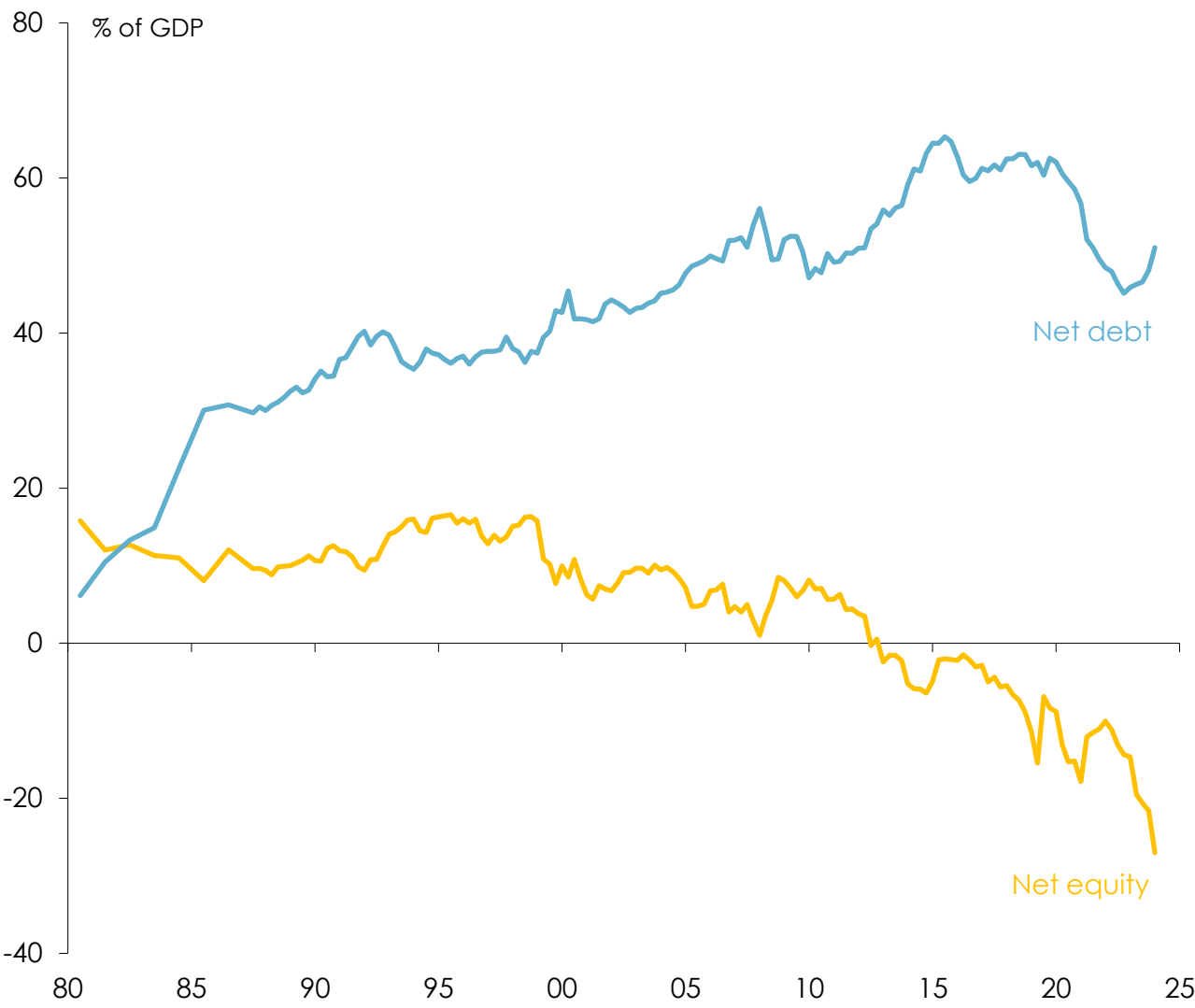


With Australia's terms of trade reverting to more 'normal' levels, the current account is back in deficit, and foreign debt might return as an issue

Australia's current account balance



Australia's international investment position



Important information

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