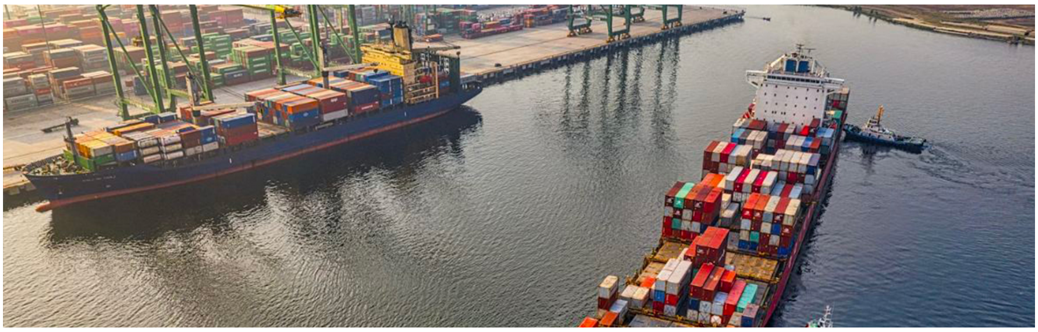
June 24, 2025

After the shipping surge: What's next for global trade?

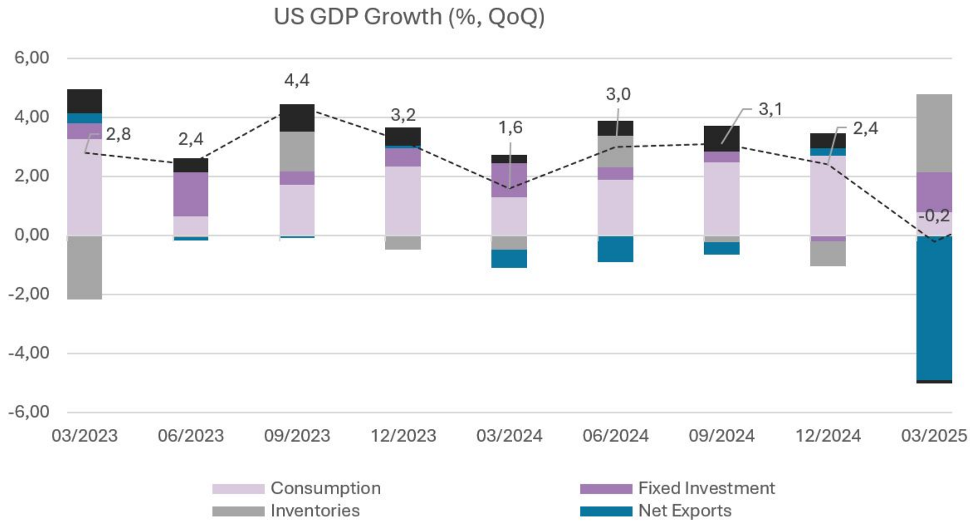


As the world grappled with the threat of tariffs from the United States, global trade experienced a dramatic yet short-lived boom. Now, as the dust settles, businesses, economists and policymakers are left asking: what comes next?

When President Trump took office on January 20, he had the US trade deficit in his sights. With "tariff" touted by Trump as the most beautiful word in the dictionary, companies around the world anticipated a shift in trade policy. They acted swiftly, accelerating goods shipments to the US in a global race to beat potential new duties.

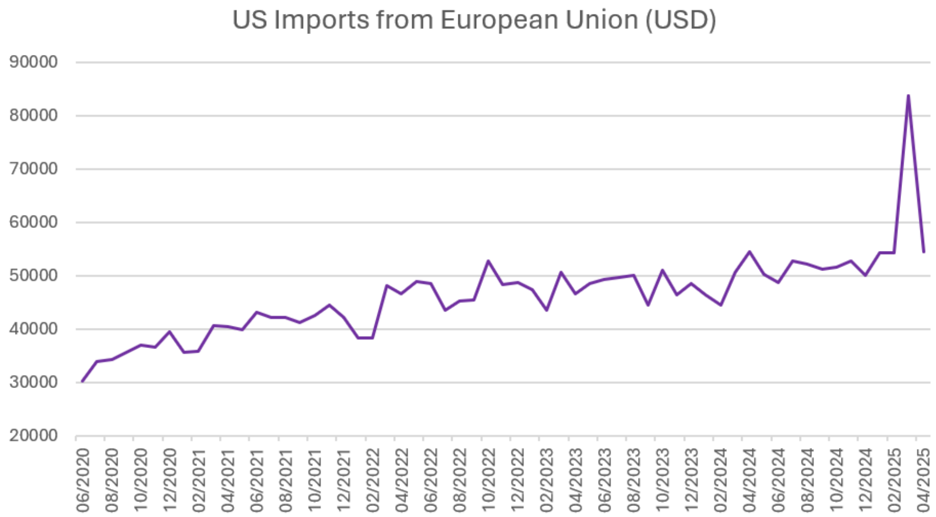
The rush to front-load imports ahead of the April 2 release of "reciprocal" tariffs had significant economic repercussions.

In the first quarter, the US economy contracted by an annualised 0.2%. This was largely due to a staggering 42.6% surge in imports that skewed net trade. Businesses, seeking to hedge against rising costs, stockpiled goods at a pace usually seen in the run up to the holiday season. However, with consumers growing more cautious, those inventories are lingering in warehouses – driving up costs and squeezing profit margins instead of cycling through to retail shelves.



Source: Bloomberg, BIL as of 13 June 2025

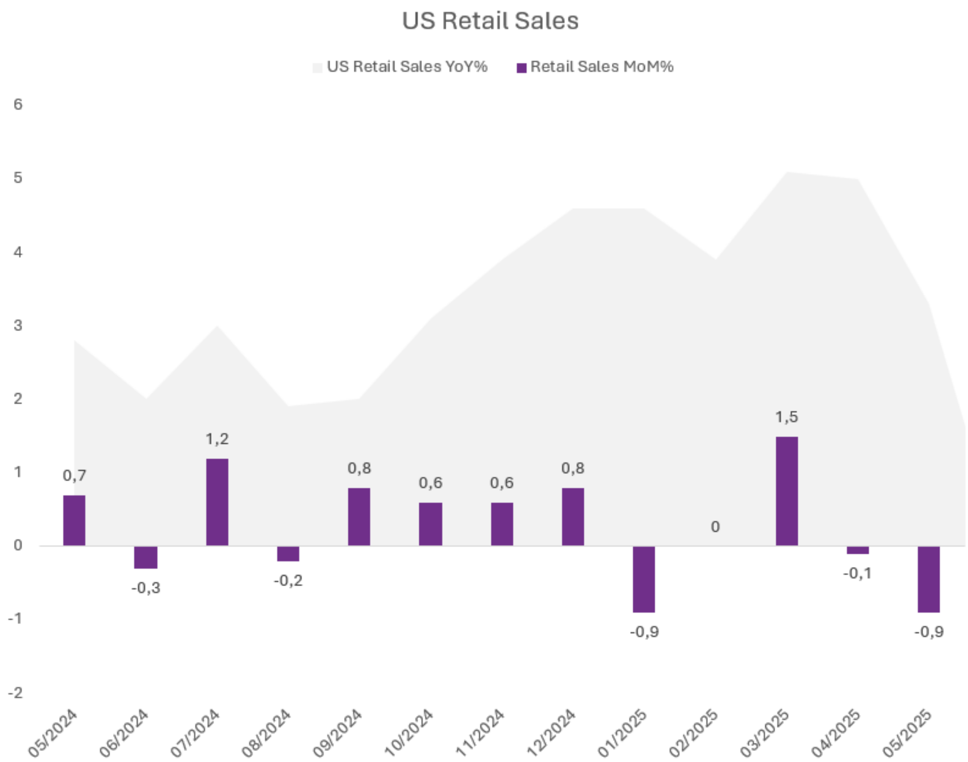
The impact of front-loading wasn't limited to US shores. Across the Atlantic, the European economy also felt the effects. Eurozone GDP grew by a stronger-than-expected 0.6% in Q1; the fastest pace since Q3 2022, underpinned by a surge in exports to the US.



Source: Bloomberg, BIL

The contrast between countries is striking. In Ireland, where manufacturing accounts for roughly one-third of economic activity, GDP expanded by 9.7% QoQ in Q1, driven primarily by multinational companies rushing to ship goods abroad. Meanwhile, Luxembourg exhibited very weak performance at the onset of the year, with the Grand Duchy's economy shrinking by 1% QoQ. The Luxembourgish economy, with manufacturing accounting less than 5% of activity, did not benefit from front-loading, while its dominant services sector was hit by the increasingly uncertain landscape.

American consumers also joined the dash, seeking to beat inflationary pressures by buying earlier. Retail sales jumped in March, only to fall off in April and May, with notable pullbacks in cars, sporting goods and other import-heavy categories.



Source: Bloomberg, BIL

Evidence of tariff-induced inflation is beginning to appear in US CPI data. In April, prices increased faster for used cars and trucks and for goods affected by Liberation Day tariffs that are high on Made-In-China content, such as furniture, appliances, audio equipment and sporting goods.

However, the broader inflation picture remains muted for now; because companies typically hold about three months of inventory, the full impact of tariffs may not appear until late June or beyond. And while prices may rise in the near-term, sustained inflation requires strong and consistent consumer demand; that is something far from guaranteed in today's economic environment.

Looking ahead, US GDP could show a stronger performance in the second quarter, thanks in part to a record decline in the trade deficit as imports fell more than 16% in April. This will boost net trade, but the benefits may be fleeting. As inventories from the front-loading phase are depleted and consumer demand softens, the true picture may be one of underlying weakness.

Some of the purchases that normally would have occurred in Q2 and Q3 were effectively pulled forward into Q1, creating a potential soft patch ahead.

Much now hinges on what happens after July 9, the deadline for ongoing tariff negotiations. Until then, uncertainty looms large. Even if talks of a détente with China have buoyed market sentiment, we must keep in mind that a 55% tariff rate on Chinese goods remains a substantial burden. Businesses remain in a wait-and-see mode, delaying investment decisions. While this may spur more stock buybacks in the interim, it could also translate to muted capital spending and tepid growth prospects.

In the Eurozone, the picture is also clouding over. With the boost from front-loading fading, and a stronger euro eroding export competitiveness, the bloc may have already peaked when it comes to 2025 growth. Without new drivers, momentum is likely to wane.

For central banks, especially the Federal Reserve, the next steps are delicate. Consumption accounts for roughly two-thirds of US economic activity, so weakening retail sales data, paired with uncertain inflation trends complicate the case for additional rate cuts. Policymakers are closely monitoring how tariffs percolate through to consumer prices and labour markets before their next move.

In the wake of a tariff-fueled trade surge, the global economy now stands at a crossroads. What began as a rush to beat import duties may give way to a more subdued and uncertain period – one marked by fragile demand, policy ambiguity, and global supply chains once again in flux.

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