What would a trade war mean for real assets?

The United States has announced a series of tariffs and other countries like China, Canada and Mexico are responding. Dexus' Head of Research Peter Studley provides his answers to the key questions raised by the evolving tariff situation.

In the event of a trade war what are the areas of concern? Australia's direct trade with the US is less than 5% of total exports so the direct effect of tariffs are likely to be small. This applies even if tariffs extend from steel and aluminium to pharmaceuticals and beef. The main area of concern for Australia would be the indirect effects of tariffs on Chinese or US economic growth. Modelling of the indirect effects of tariffs by Treasury predicts a 0.1% reduction in GDP by the end of the decade, which is mild, although a recession in the US could worsen this outcome. In addition, there is likely to be significant financial market volatility.

What about the effect on real assets and infrastructure? The real estate and infrastructure markets would be sensitive to a US or Chinese slowdown to various degrees, through the broad economic impacts. However, compared to some other sectors, real assets have a low direct exposure to trade and in many cases, a low direct exposure to equity market volatility. Many real asset sectors are driven mainly by domestic demand factors such as retail sales, employment growth, electricity consumption and health spending.

What does it mean for development? A trade war could lift construction costs and disrupt supply chains. However, with construction cost growth now tapering, such impacts would more likely extend the duration of the current cost cycle than make it worse. While material costs could rise, labour costs, which are up to 50% of construction costs, are unlikely to be affected.

Do the tariff announcements change our view for 2025? While uncertainty has increased, our view of a broad-based improvement in real estate and infrastructure markets in 2025 hasn't changed. In addition, strong population growth is the best possible buffer against global shocks.

What is our view on interest rates? It is likely that any worsening of the trade situation would put neutral to downward pressure on interest rates because the risk of slower global growth outweighs the risk of higher inflation.

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