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Economic Research

Economic Briefing

Trump's tariffs weaken German exports and industrial production

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Dr. Vincent Stamer [AC]

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German goods exports rose by only 0.8% in June compared with May, failing to offset the decline in previous months. Due to Donald Trump's tariff policy, exports to the US fell for the third time in a row. This is at least partly responsible for the 1.9% slump in industrial production in June. A previously visible upward trend in production has thus been broken.

Sluggish exports can not offset previous declines

Weak figures from German foreign trade: calendar and seasonally adjusted goods exports rose by only 0.8% in June, failing to offset the decline in previous months. Exports to the European Union provided support, rising by 2.4%.

Exports to the US fell in June and are likely to fall further

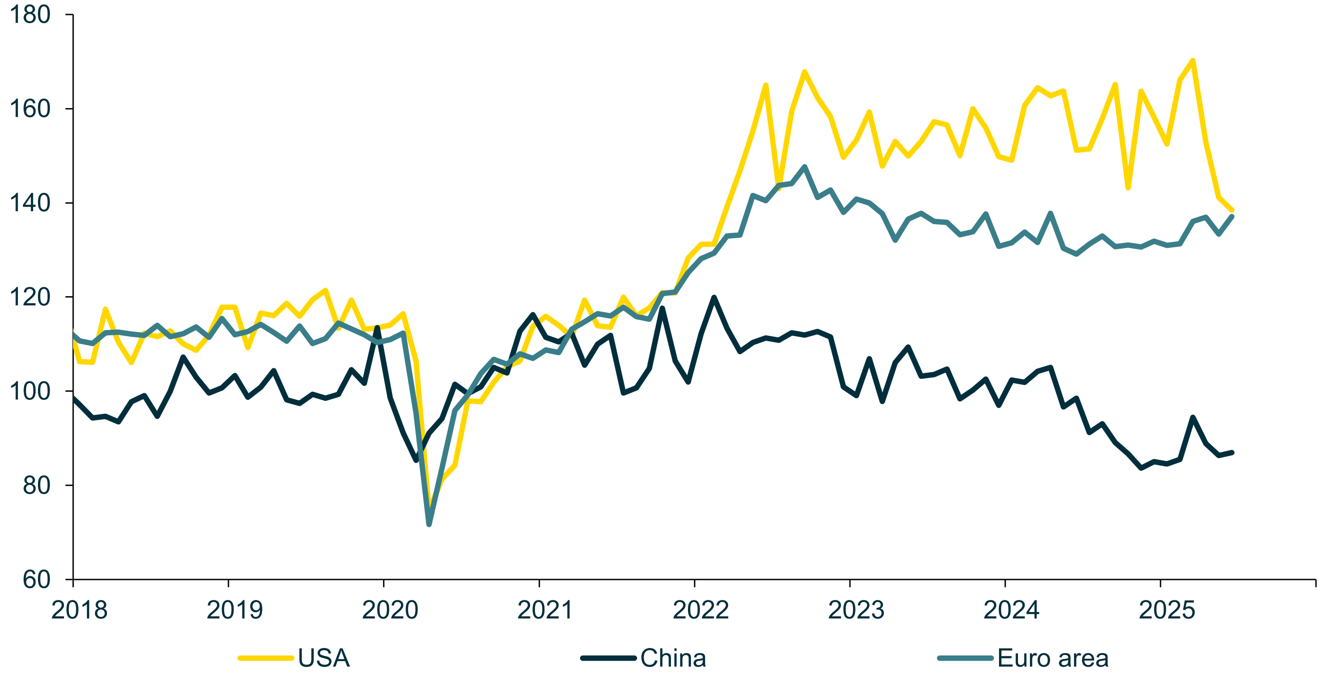
The weakness in German foreign trade is partly due to trade with the US. Exports to the US fell by 2.1% in June compared with May and were 12% below the average for 2024 (Chart 1). This is also remarkable because exports measured in current prices usually rise simply due to inflation.

With the third consecutive monthly decline in German exports to the US, it is now clear that Donald Trump's tariff policy is slowing down trade. On the one hand, US importers view the tariffs as making import prices more expensive, thereby lowering demand for German goods. On the other hand, the uncertainty is likely to cause exporters to hold back some goods in order to avoid surprises in transit.

In June, additional tariffs of 10% were imposed on most German goods, with additional sectoral tariffs of 25% on cars and car parts, for example. These tariffs were added to those in place before Trump's second term, which averaged around 2%. As of this week, uniform tariffs totaling 15% now apply to almost all goods. Exceptions include pharmaceutical products (no additional tariffs) and steel and aluminum products (additional tariffs of 50%). Overall, we expect the tariffs to reduce exports to the US by 20-25% within two years.

Chart 1 - German exports to the US decline a third time in a row

German exports to the US, monthly nominal data, seasonally adjusted, 2020 = 100



Source: Destatis, Commerzbank-Research

An emerging upward trend in industrial production has been broken

Following weak order data in June, price-adjusted industrial production has now also fallen – by 1.9% compared to May. In addition, the increase in May was revised downwards to just 0.1% (from 1.2%). The last time industrial production was this low was during the coronavirus pandemic in 2020. The slight upward trend visible before the revision has been broken.

All of this supports our view that the industry will recover only very hesitantly in the coming quarters. Loose monetary policy should support the manufacturing sector, and immense government spending should fuel the economy in the coming years. However, uncertainty in foreign trade and Germany's structural weaknesses, such as labor shortages, bureaucracy, and high energy costs, are currently still holding back German manufacturing.

Analysts

Dr. Vincent Stamer AC
Senior Economist
+4969935345800
vincent.stamer@commerzbank.com

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Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000