# What do Trump's tariffs mean for Germany?

Donald Trump is getting serious with his tariff threats and could soon target European exports. We analyze which sectors of the German economy will be affected and where dependencies on exports to the US are highest. In an extreme case, half of German exports to the US could break away within two years.

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## Which of Donald Trump's tariff plans affect Germany?

During his still young term of office, the US president has announced various import tariffs. The duties of 25% on steel and aluminum introduced this week, are the first ones so far that directly impact imports from Europe. It is probably only a matter of time before Trump introduces further tariffs on imports from the European Union (EU). The US president assumes that the EU was founded "to screw over the USA." The US trade deficit in goods with the EU of more than 200 billion US dollars is also a thorn in Donald Trump's side.

As early as **April 2**, Trump could introduce or announce the following tariffs against the EU:

- **Sector-specific tariffs:** Import duties on certain sectors such as cars, pharmaceutical products and computer chips could be raised to 25%.
- **Reciprocal tariffs:** Import tariffs by the US will be raised to the same level as those applied by trading partners (such as the EU) on US imports.

It is certainly possible that the announcements will be postponed or that the tariffs will come into force later. Many other details are also currently unknown, and it is unclear whether these tariffs will fully complement each other. Nor can it be ruled out that the US will impose a flat tariff of 25% on all goods from the EU. We analyze the most important scenarios.

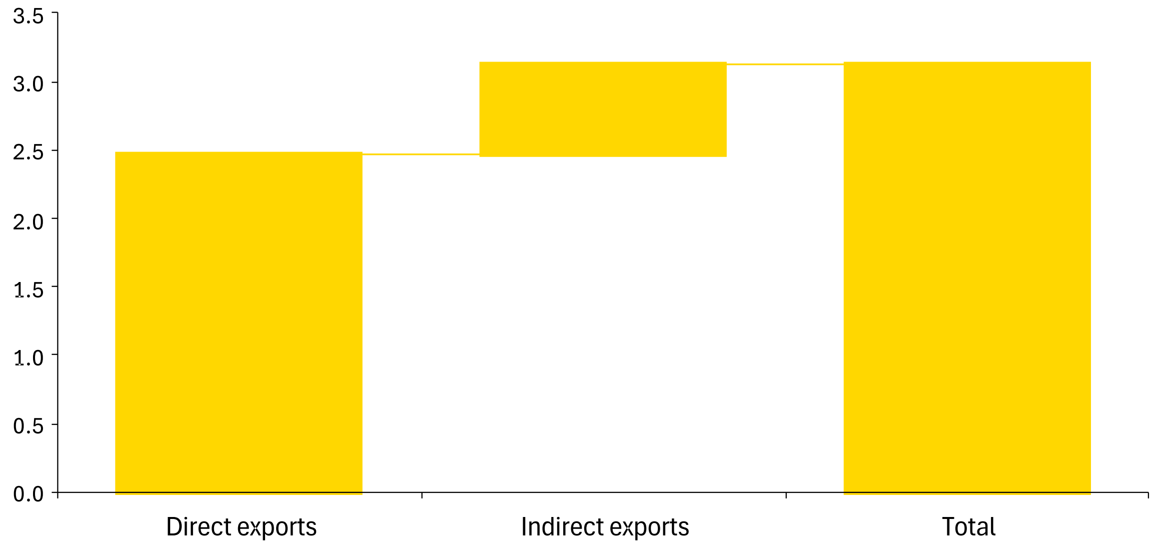
## Extreme scenario: 25% tariffs on all EU goods reduce exports to the US by half

In a public cabinet meeting, Trump spoke of 25% tariffs on "cars and all other goods" from the EU. We consider this to be the most extreme scenario. The tariffs would also be extreme because the average tariff of the United States under Biden was less than 3%, so the levies would increase very sharply.

The enormous damage to the German economy is due to the fact that about 3% of Germany's gross domestic product (GDP) enters the US via direct exports and international supply chains (Chart 1).[1] Direct exports from Germany to the US alone correspond to 2.5% of Germany's GDP. In addition, German intermediate goods are used in production in other countries (mainly EU countries) and are then exported to the US by these third party countries. 0.6% of German GDP reaches the US via such indirect exports.

**Chart 1 - Approximately 3% of German value added depends on the US**

Value added exports from Germany to the United States, as of 2019, share of GDP in %




Source: OECD, World Bank, Commerzbank-Research

Higher US import tariffs would increase the prices of European products on the US market and reduce demand from American consumers. If an additional tariff of 25% were imposed on all European products, exports to the US could be roughly halved within two years.[2] Half of German exports to the US correspond to around 1.5% of Germany's economy.

## Adjustment channels mitigate damage to GDP to 0.5-1.0%

However, various adjustment channels mitigate this effect:

1. **Exchange rate:** Import tariffs by the US could push up inflation there. If the Fed reacts to this by raising interest rates as it has done before, the US dollar would appreciate against the euro. This would partially offset the import tariffs.

2. **Diversion effects:** Some of the exports from Germany that are no longer demanded by the US could be diverted to other countries. This should be easier for those sectors that are less dependent on the US market.

3. **Countervailing duties:** If the EU introduces countervailing duties on imports from the US, US products will become more expensive on the European market compared to domestic ones. Consumers in Germany are more likely to buy domestic products than American ones. This will encourage production in Germany.

4. **Tariffs on third party countries:** The effect of US import tariffs on third party countries is underestimated. If the US imposes higher tariffs on goods from third countries (such as Canada, Mexico and China) than on German goods, the relative competitiveness of German products in the US will improve.

All channels are likely to play a role. We therefore expect a loss of 0.5% to 1.0% of German GDP within the first two years.[3] However, this calculation is associated with substantial uncertainty.

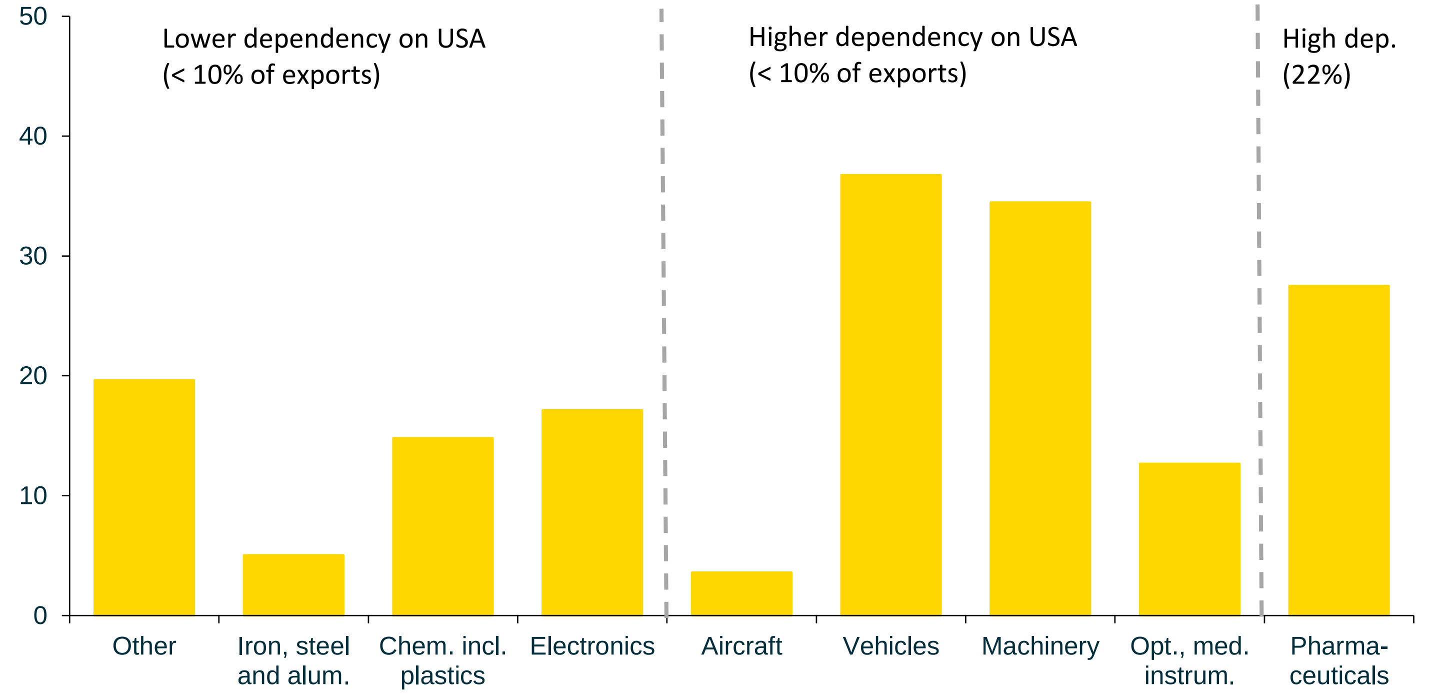
## Sector-specific tariffs: Automobiles and pharmaceuticals are targets

If the US does not impose 25% tariffs on all EU goods, Trump has also threatened to impose 25% tariffs on certain product groups. After steel and aluminum products, the automotive and pharmaceutical industries (about 40% of German exports to the US) are next in line. Accordingly, the negative effect on German GDP would be lower at 0.2% to 0.4% within two years, even compared to the extreme scenario above. On the other hand, the probability of tariffs is higher in this scenario – especially in the automotive sector: Donald Trump already wanted to impose tariffs on European cars during his first term in office, and the US has a very high trade deficit in automobiles, which Trump would like to reduce with tariffs.

When considering individual sectors, it is particularly important to consider how high the export volume to the US is and how heavily companies are concentrated on the US as a sales market. The higher the concentration of exports on the American market, the more difficult it is to find alternative customers in third party countries (low diversion effects). With a US share of 22% of all exports, the concentration is highest for pharmaceutical products (Chart 2). Replacing the US market in this area is particularly difficult. The important areas of vehicles and machinery also show an above-average concentration on the US market. These sectors also include individual products that are even more dependent on the US market. Examples of this are turbines (€864 million in exports and 45% US concentration) and protein hormones (€488 million in exports and 82% US concentration).

**Chart 2 - Industrial sectors concentrate on the US market**

Exports from Germany to the USA in 2022, in billion euros; notes at the top: Export concentration on the US




Source: UN Comtrade, Commerzbank-Research

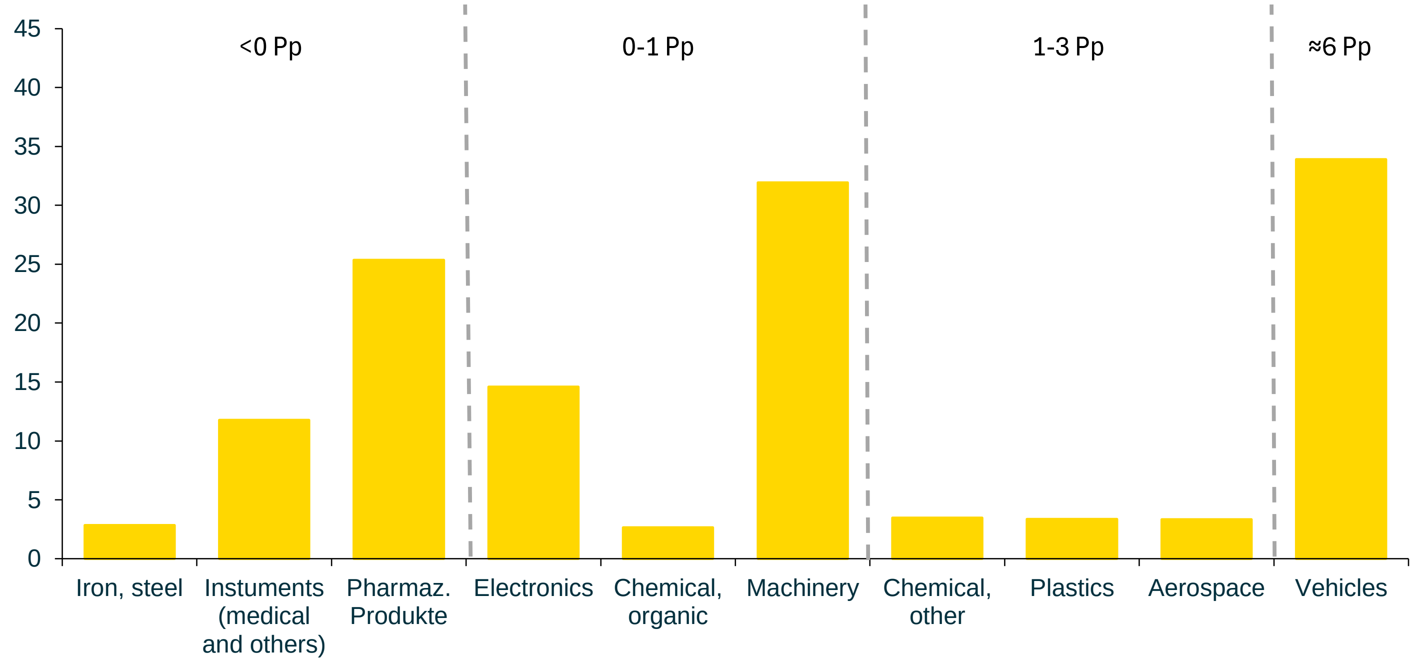
## Reciprocal tariffs: Car exports particularly exposed

The so-called reciprocal tariffs represent another scenario. The design of these tariffs is less certain than in the scenarios above. In principle, the US would increase its duties on imports from trading partners to the level that trading partners demand on their imports from the US. In the case of imports from Germany, the US would therefore increase tariffs to the level applied by the EU. Typically, this would be done at the detailed product level. The German automotive industry would also be affected in this scenario. This is because the US levies a 2.5% import duty on cars, while the EU applies a 10% duty. For all vehicles (trucks, buses and cars), this would mean an increase in customs duties of around 6 percentage points (Chart 3). The machinery sector could get off lightly with a customs difference of around 1%. Pharmaceutical products should not be affected by reciprocal customs duties at all. Overall, the economic effect would be negligible amounting to less than 0.1% of German GDP.

This analysis is based on the assumption that the US will indeed proceed at the product level. By contrast, a White House adviser has spoken of one tariff rate per country. To that extend, the US could increase its import tariffs by the average difference between the US and the EU. Depending on the basis for the weighting, this figure would be below 1% and probably the best-case scenario for the EU. However, the US administration may include the difference in VAT and non-tariff barriers [4]. It is completely unclear what form these calculations might take. However, it is clear that this would increase the additional tariff rate. In the extreme case, Donald Trump could use this to justify the flat tariff of 25% on EU products.

**Chart 3 - The automobile sectos would be hit most**

Exports from Germany to the United States, in billion euros; values noted at top: Differences of EU vs US tariffs in percentage points




Source: UN Comtrade, Commerzbank-Research

## Sector-specific tariffs are the base case

As with the tariffs imposed on Canada and Mexico, Trump could also impose tariffs of 25% on all goods traded with the EU in order to force concessions. However, as with Canada and Mexico, it is not clear how long these tariffs would actually last. For the full effect (0.5% to 1.0% GDP decline over two years), the tariffs would have to remain in place for two years. After Trump mentioned "tariffs on cars and all other goods" from the EU at the cabinet meeting, it was also not clear whether all or only selected products were meant.

We therefore consider it more likely that only sector-specific tariffs will be imposed in the longer term. This applies in particular to European automobile exports. These could be joined by reciprocal tariffs, although details on these are yet unknown. For this reason, we expect the damage to the German economy to be in the range of 0.2% to 0.4% over two years as a baseline scenario.

[1] This calculation does not include trade in services, as these cannot be subject to tariffs. In 2029, trade in services accounted for less than 10% of total trade between Germany and the USA, including goods. In this analysis, the German "value added" in exports is considered, i.e. only that part of the goods that is actually produced in Germany. (Back)

[2] The amount of the decrease in imports in percent due to higher tariffs in percentage points is expressed as "elasticity". Over a one-year period, an elasticity of -1 is considered likely. Over a period of several years, the elasticity could be as low as -4. For this calculation example, a value of -2 was chosen. This corresponds to the observed elasticity of the US in the trade war against China in 2018 within two years: **https://www.federalreserve.gov/econres/notes/feds-notes/global-trade-patterns-in-the-wake-of-the-2018-2019-u-s-china-tariff-hikes-20240412.html** (Back)

[3] There is a great deal of uncertainty surrounding this calculation, not least due to the lack of details on tariffs. Therefore, the calculation is by no means a forecast for the German economy, but rather an initial estimate of the magnitude of the effects. However, the magnitude of the effects is consistent with the results of other studies. (Back)

[4] The value added tax in Germany is 19%, while the average sales tax across US states and municipalities is only about 7%. Non-tariff barriers include import quotas, technical standards and food quality requirements. These can only be translated into an equivalent "ad valorem" tariff with a great deal of imprecision. (Back)

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