Is euro area sentiment suffering from Trump?

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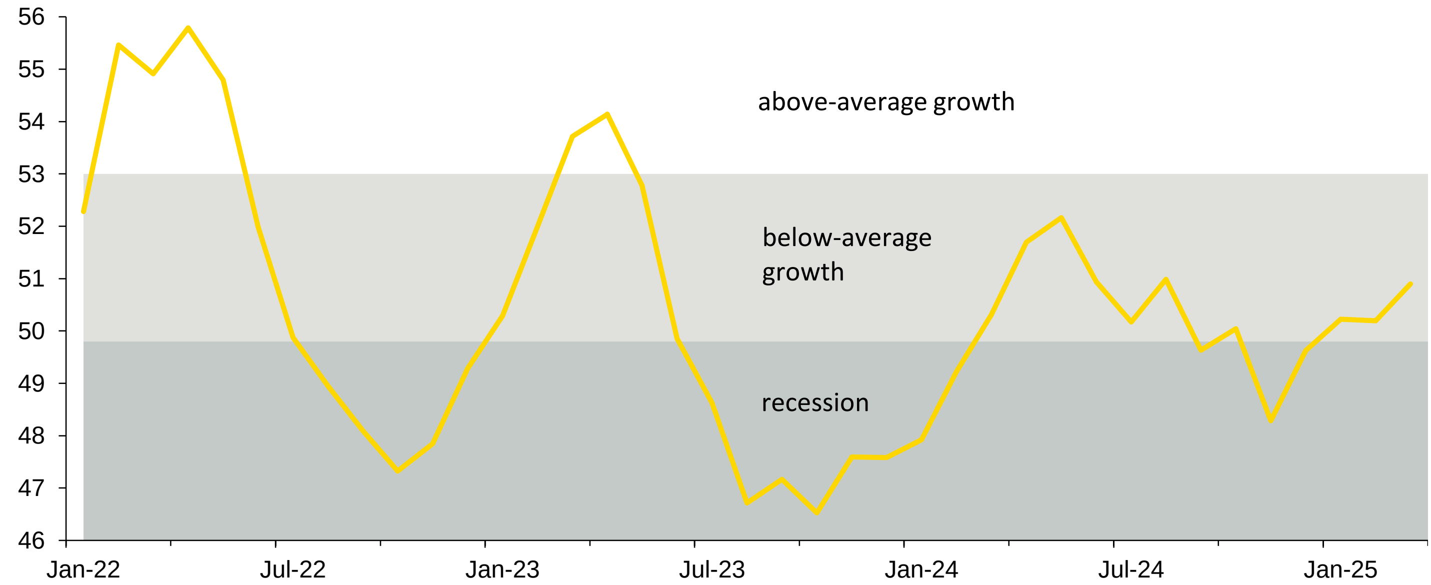
Despite the US government's erratic tariff policy, the Purchasing Managers' Index for the euro area is likely to rise further in April. This is because the ECB's key interest rate cuts should increasingly boost the economy. However, for Germany and Italy in particular, the US tariffs are likely to slow the increases of the Purchasing Managers' Indices and contribute to only moderate economic growth in the euro area.

In March, the composite Purchasing Managers' Index (PMI) for industry and services in the euro area rose noticeably. This puts the sentiment in a range in which the economy has grown moderately in the past (Chart 1). In particular, industry should increasingly benefit from the key interest rate cuts by the ECB and other central banks. In April, this effect is likely to be at least partially neutralized by higher US tariffs, which will probably slow down the export of goods to the US. We therefore expect only a slight increase from 50.9 to 51.5 for April.

Chart 1 - Euro area PMI recovers

Euro area composite PMI, seasonally adjusted monthly figures



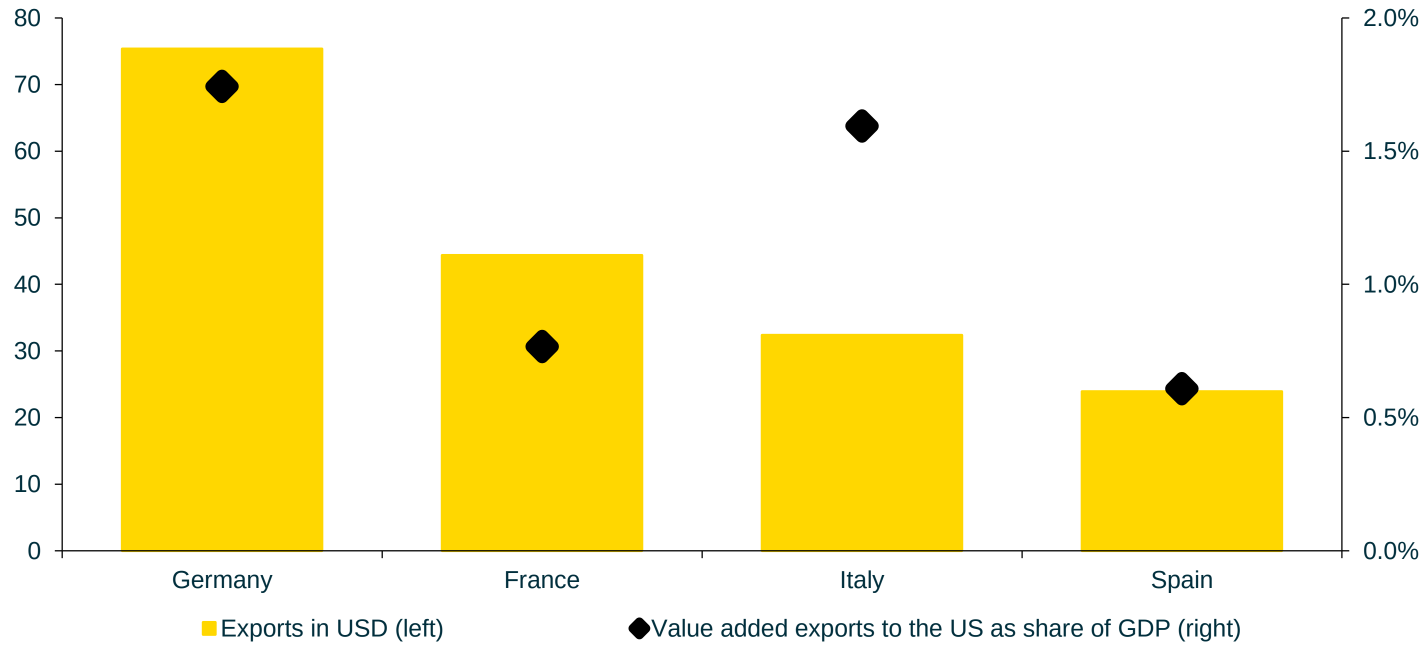
Source: S&P Global, Commerzbank Research

Trump's tariffs will hit Germany and Italy particularly hard

The fact that the larger economies in the euro area are affected by US tariffs to varying degrees is likely to be reflected in the national indices. The negative effect is likely to be particularly strong for Germany and Italy, after their composite PMIs recently rose above the 50 mark again for the first time in a while. This is because, at over 1.5% as a share of gross domestic product, the dependence on the US market for direct exports is significantly higher in Germany and Italy than in the case of France (Chart 2). Accordingly, the US tariffs are likely to dampen the recovery of economic sentiment in these two countries. The PMIs of Spain and France should be less affected due to their lower economic dependence on the US market. Therefore, they could remain at their high level (Spain) or at their low level (France).

Chart 2 - Who relies on exports to the US?

Exports to the United States in bn. USD in 2024 (left), domestic value added in direct exports to the United States as share of total domestic value added in % as of 2019 (right)



Source: UN Comtrade, OECD, Commerzbank-Research

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