

# US tariffs: significant impact on exports, German industrial activity otherwise quite robust

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A good three months ago, US President Trump raised US tariffs on exports from the EU and many other economies to historically high levels. The most recent economic data suggests that the negative impact on German industry so far has been rather moderate. Although exports to the US have fallen, the protectionism so far has not affected the positive trend reversal in sentiment indicators.

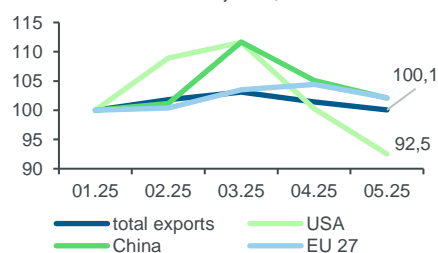
The US has levied a new base tariff of 10% on almost all exports from the EU since April. Initially, even higher "reciprocal tariffs" had been announced, but these were suspended for a negotiation period that was originally due to expire on April 9. In addition, a tariff of 25% was introduced on cars and car parts from April. Tariffs of 25% on steel and aluminium were initially in effect since mid-March and were raised to 50% in June.

## Exports to the US have fallen sharply

As expected, the new tariff regime has most heavily squeezed Germany's goods exports to the US. In April they already fell by 10% on the previous month, and another 7.7% drop was registered in May.

## Goods exports by target region

Seasonal and calendar adjusted; Jan. 2025=100



Source: German Federal Statistical Office

However, businesses pulled forward many exports ahead of the long-announced 'Liberation Day' on 2 April in

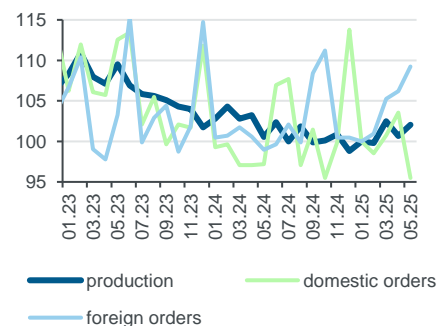
a bid to avoid paying tariffs later. The more informative comparison with the level at the start of the year shows that Germany's exports to the US dropped by 7.5% in May.

## Production and mood are resilient

In other respects, German industry so far has been remarkably resilient. The value of Germany's overall exports remains on the level it was at the start of the year, as exports to the EU in particular had a stabilising effect. Besides, although production in the manufacturing sector suffered a setback in April, it rose again by 1.4% in May. Even though the sector is affected by particularly high tariffs on exports to the US, production in the automotive industry was recently even 10% above the level at the start of the year. At the same time, new industrial orders even rose in April, before dipping (by 1.4%) in May. But this was only due to a drop in demand from Germany and the euro area, while demand from other markets increased for the fourth consecutive month.

## Production and new orders in manufacturing

Price, seasonal and calendar adjusted; Jan. 2025=100



Source: German Federal Statistical Office

On balance, new orders and industrial production have both stabilised since the end of 2024, and there has been no

major downturn even after the increase in US tariffs in April. The even more recent business surveys show a similar picture: The manufacturing business climate has climbed out of the doldrums relatively undeterred, and other indicators for German industry such as production expectations, variations in the stock of orders as well as the relatively broad Manufacturing PMI have also recovered further. What is remarkable is that export expectations have also recovered quickly and the uncertainty felt by businesses shot up for only a short period of time.

## Manufacturing survey indicators

Balances, seasonally adjusted



Source: ifo Business Survey

Experience shows, however, that it takes a long time for the damage caused by tariff increases to become fully evident. It is possible, for example, that businesses have continued to produce and stockpile goods in the hope of successful trade talks. It also remains unclear what the tariff regime will look like in the long term. In any case, tariff threats will likely remain part of the US president's standard repertoire even after provisional trade agreements are reached.