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Economic Briefing

What Trump's victory means for Germany

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Trump's looming victory will have noticable implications for the eurozone and German economy. Trump is likely to implement at least some of the threatened tariff increases. Together with retaliatory tariffs by the EU, this points to rising inflation and growth risks in the eurozone. In addition, Germany continues to find itself on the defensive in the tax competition with the US. Trump's ambivalent stance on NATO poses economic risks that cannot be ignored in the long term.

Trump will not implement all of his plans one-to-one

Even though Trump has won a majority in both houses of Congress, he is unlikely to implement his election platform one-to-one as president. This applies, for example, to his tariff plans (at least 60% on all imports from China, 10% on imports from all other countries). It is not clear whether his legal powers are sufficient for a general increase in tariffs. In addition, Trump is likely to deliberately threaten high tariffs in order to induce the countries concerned to make concessions during negotiations.

Tariffs and retaliatory tariffs: more inflation

For the US, tariffs should therefore not increase consumer prices by 2 percentage points between mid-2025 and mid-2026 (full implementation of his campaign demand), but only by an estimated 1 percentage point. Higher US tariffs divert US demand away from goods produced in the eurozone and Germany which lowers eurozone inflation. However, higher US tariffs cause the Dollar to appreciate, making imports by the eurozone more expensive. In addition, retaliatory tariffs from the EU can be expected with a time lag from 2026, which will also increase consumer prices in Germany. Overall, inflation in the eurozone and in Germany could be up to half a percentage point higher in 2026.

No change in 2025 growth forecast, ...

Due to the tax cuts and higher tariffs, US GDP may grow by a quarter of a percentage point more in 2025 than previously forecast (2.0%). At first glance, this suggests more growth in the eurozone. However, the slightly higher US growth is partly due to higher US tariffs, which divert demand to the US at the expense of the eurozone. Although a stronger dollar due to tariffs increases the price competitiveness of goods produced in the eurozone, this influence should not be sufficient to raise the eurozone forecast for 2025 (0.9%; Germany: 0.2%) in view of the anyway high forecast uncertainty.

… but in the years thereafter damage due to accelerated de-globalization

Moving from the short-term economic perspective to the longer term, the negative effects of Trump's economic policy for the eurozone clearly outweigh the positive ones. This is because his tariff plans are not only directed against China, but against all countries and therefore also against European allies. There is a threat of retaliatory tariffs by the EU, and a tariff war cannot be completely ruled out. De-globalization would continue and the international division of labour would suffer. This would be negative for the entire Western economy and therefore also for the eurozone.

Higher Fed rates and inflation argue for not quite so low ECB interest rates

The emerging higher US inflation and slightly higher growth in 2025 argue for fewer rate cuts by the Fed. It is unlikely to cut its policy rate (upper limit of the interest rate corridor) to 3.5% by mid-2025, as we have previously forecast, but only to 4.0%. The Fed would not rule out further rate cuts, but would merely switch off the auto-pilot due to tariff induced higher inflation risks and emphasize that from now on it will decide on a case-by-case basis.

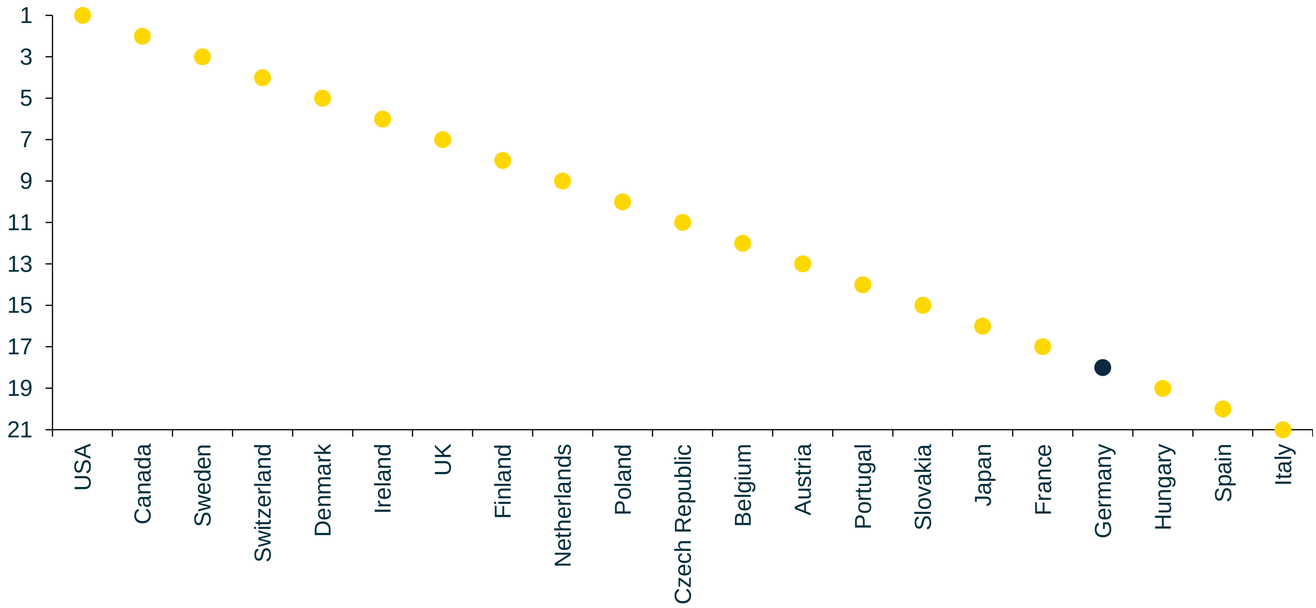
This would not have a direct impact on the ECB because the eurozone is a similarly large economic bloc to the US and the ECB therefore has sufficient leeway to pursue its own monetary policy. However, the increased inflation risks with a view to 2026 due to retaliatory tariffs and dollar strength argue for one less ECB interest rate cut. We are refraining from the planned but as yet unpublished further cut in the ECB deposit rate to 1.75% and are leaving our forecast for the ECB deposit rate at 2.0% as at mid-2025.

Increased tax competition

Donald Trump has announced his intention to reduce the corporate tax rate from the current 21% to 15%. After the experiences of his first presidency, he is likely to implement this plan to a large extent. This would put Germany, with an average corporate tax rate of just under 30% (including trade tax), further on the defensive. According to the country index of the Association of Family Businesses, Germany is already only in 18th place for corporate taxes compared to 20 other industrialized countries (chart). Trump's victory is therefore likely to intensify tax competition and support the trend of German companies increasingly relocating production to the USA.

High tax burden for companies in Germany

Tax ranking in the “Family Business Country Index”: The “Taxes” sub-index ranks the tax burden of large family businesses in (inter)national business activities, in the event of inheritance and the complexity of the tax system



Source: Country Index Familienunternehmen, Commerzbank Research

Increased security policy uncertainty as a long-term risk

Trump's ambivalent attitude towards NATO is an often underestimated long-term risk. This would not be an issue if there were no significant military threats in Europe. But Russia is aggressive and the defense capabilities of the European democracies are weak. There is therefore a certain risk that, following a possible victory over Ukraine in a few years' time, a heavily armed Russia could turn against the Baltic states, for example. Without unlimited US security guarantees within the framework of NATO, investors could at some point begin to price in military conflicts in Europe with a low, but not negligible, probability. This would have a clearly negative impact on the financial markets and economic development in the eurozone.

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