

Economic Outlook

Effects of US Tariffs on the Eurozone Economy

Gerald Walek, CFA

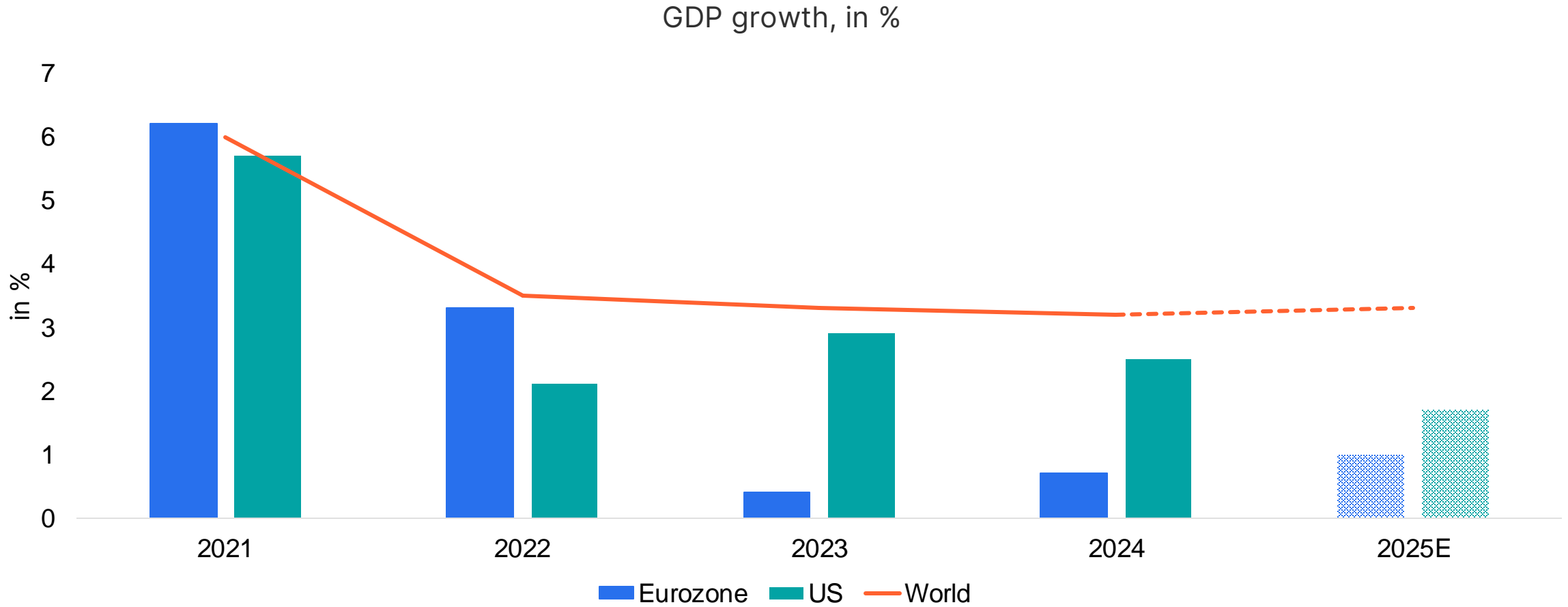
January 2025



Economy at the start of 2025

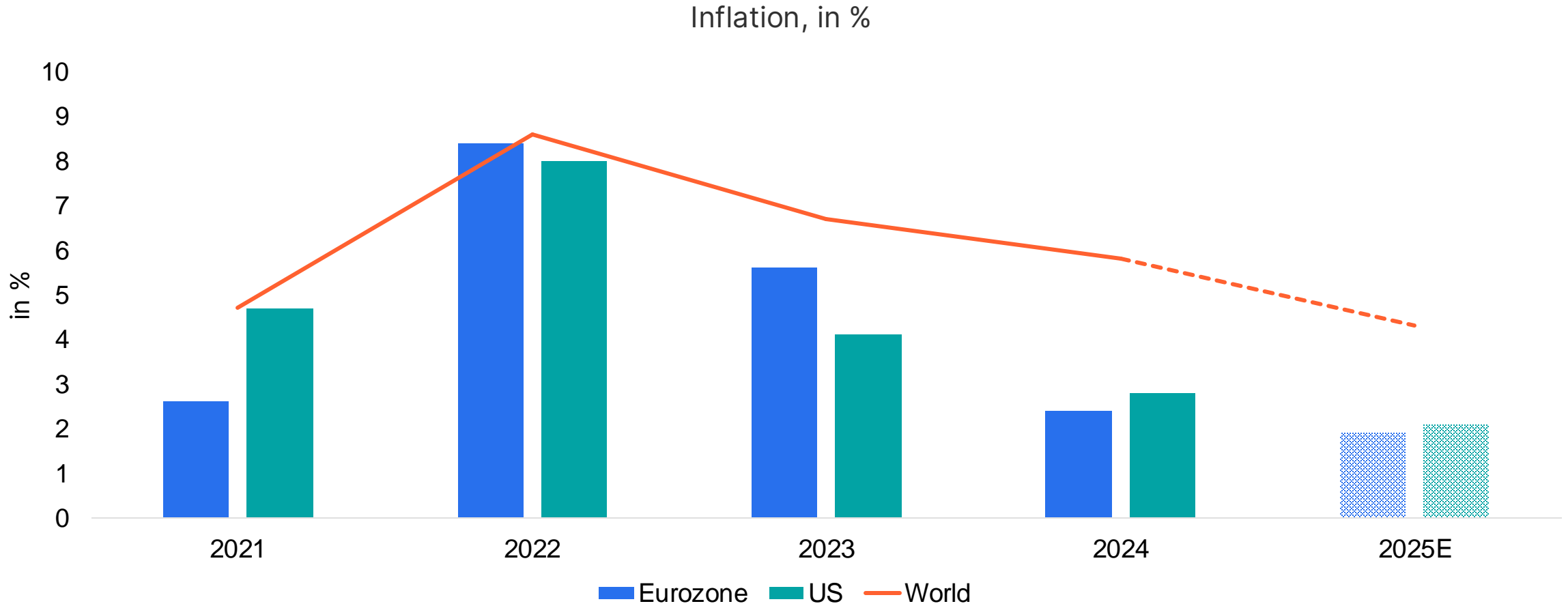


Stable global growth 2025 expected



Source: Eurostat, Bureau of Economic Analysis, IMF, Erste Group Research

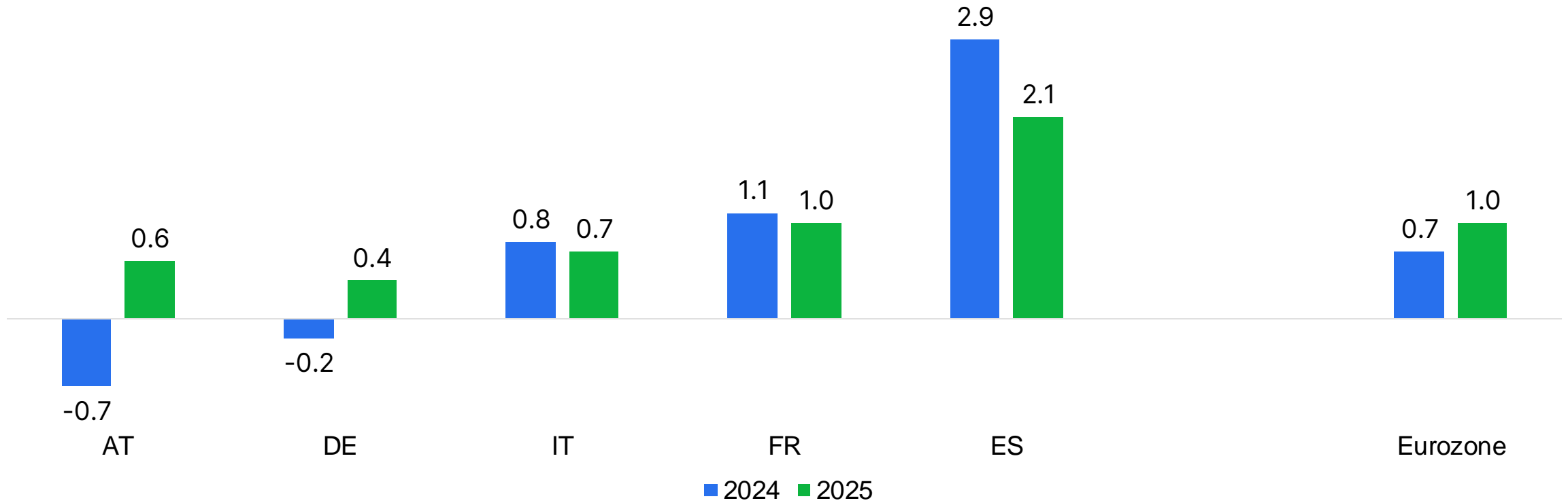
Inflation is moderating further



Source: Eurostat, Bureau of Economic Analysis, IMF, Erste Group Research

Strong growth disparity in the Eurozone

GDP growth, in %



Source: Eurostat, Erste Group Research

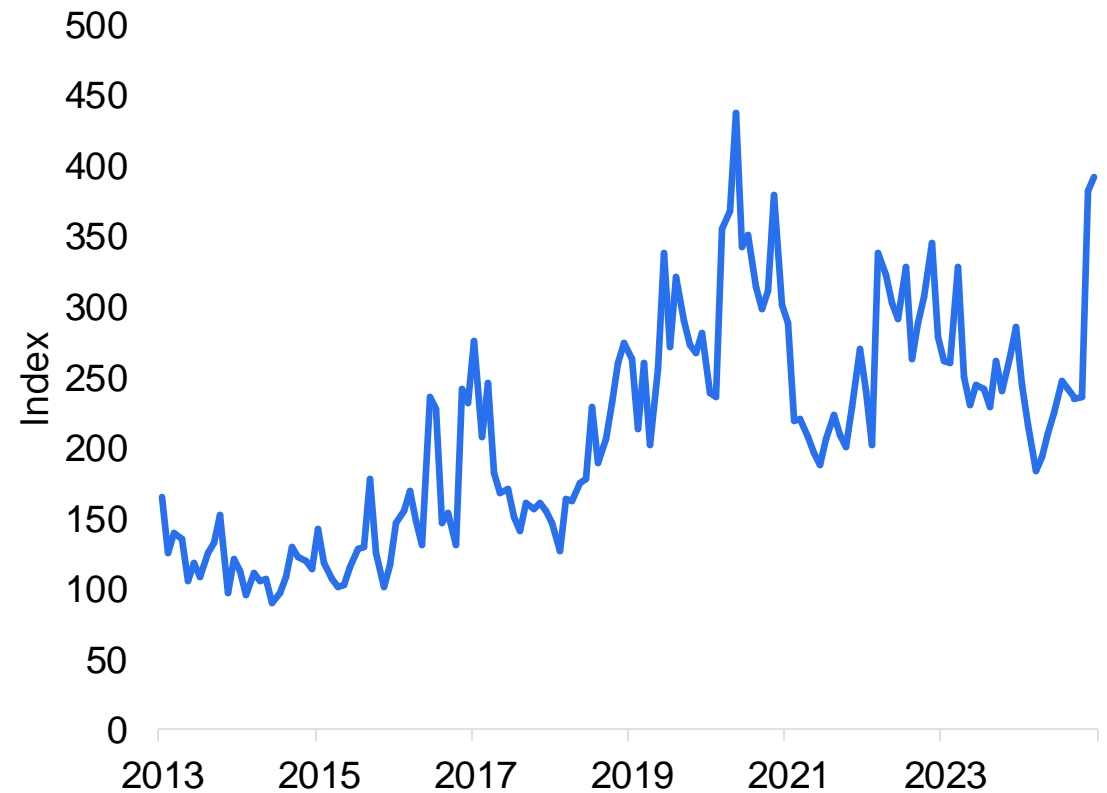
Eurozone – economic scenarios of US policies



Trump re-election is already having an impact on global risk assessment

- Global risk awareness already close to peak levels last seen during outbreak of the pandemic 2020.
- This will dampen and delay investment decisions in all major global economies ex-US.
- Rising US trade barriers will cause inefficiencies in major value chains.
- Economists thus expect, that new US-tariffs will have a dampening impact on global growth 2025 and 2026; probably beyond as well.

Global Economic Policy Uncertainty Index

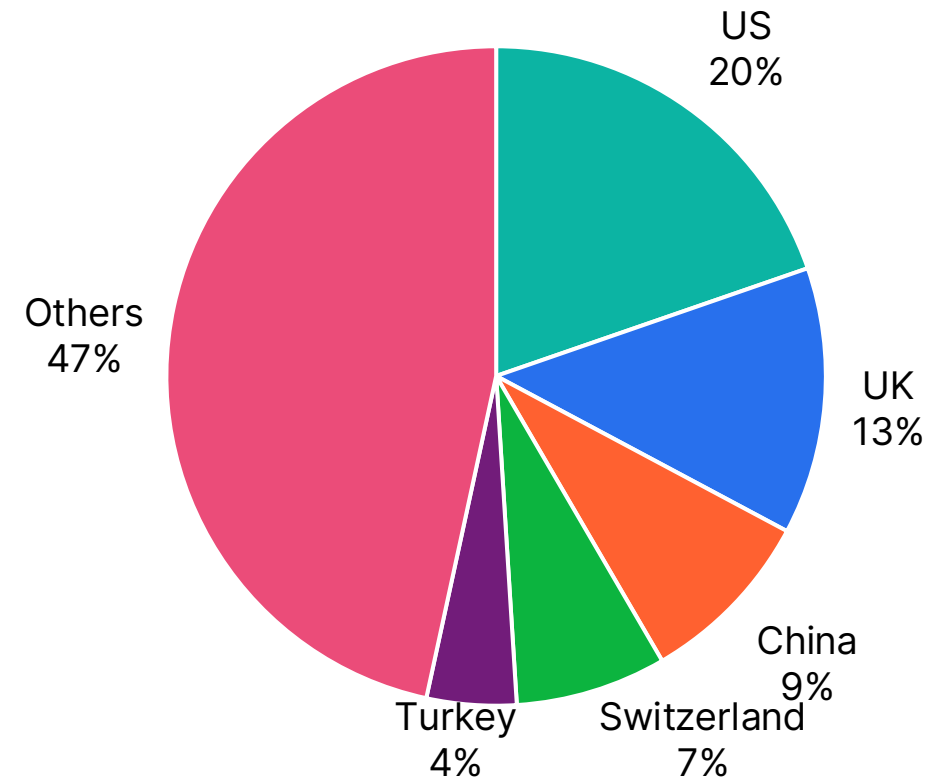


Source: www.policyuncertainty.org, Erste Group Research

Downside risks for Eurozone growth and inflation outlook

- We forecast for the Eurozone slower export and investment growth due to expected US tariffs in 2025 and 2026.
- Slower Eurozone growth raises downside risks for the inflation outlook as well.
- Attempts of China to dump goods on markets outside the US, might dampen goods inflation in the Eurozone.
- We expect thus that tensions between EU and China could rise as well.
- In this environment the probability rises that the ECB might be forced to lower rates faster than currently expected.

EU export shares by main trading partner, 2023



Source: EC, Erste Group Research

EU climate plans under pressure since Trump election

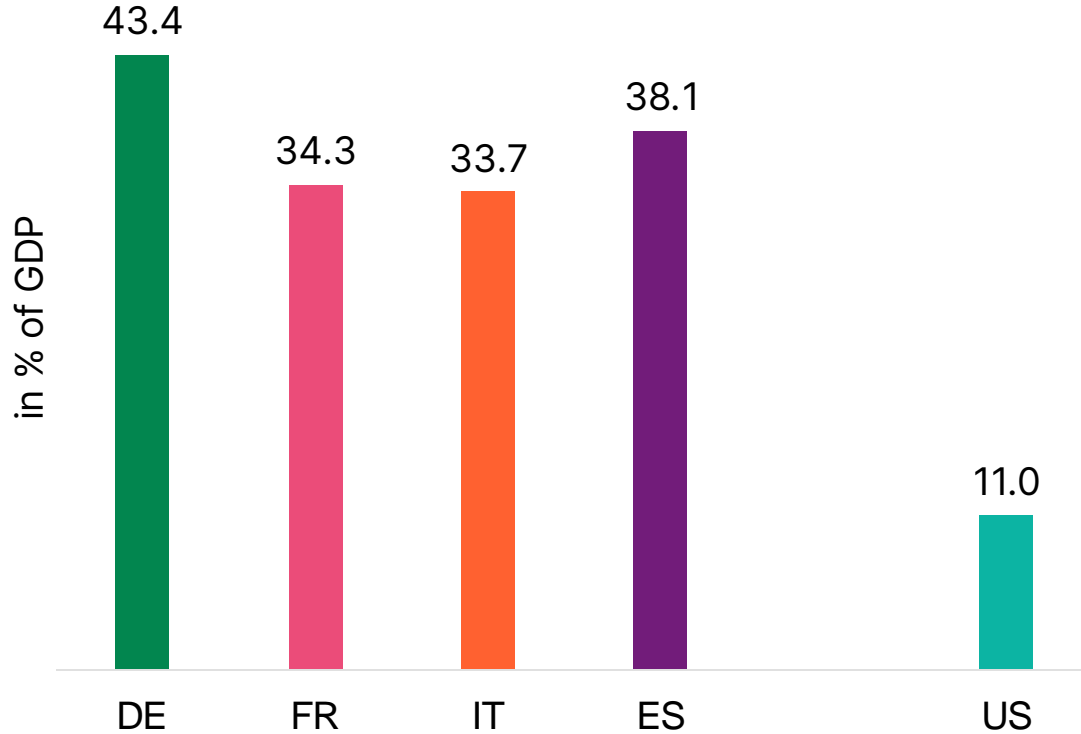
US Banks leaving the Net-Zero-Banking-Alliance

Name of Financial Institute	Date of withdrawal
BMO Financial Group	17. January 2025
JP Morgan Chase	07. January 2025
Morgan Stanley	02. January 2025
Bank of America	31. December 2024
Citigroup	31. December 2024
Wells Fargo	20. December 2024
Goldman Sachs	6. December 2024

Source: Net-Zero Banking Alliance, Erste Group Research

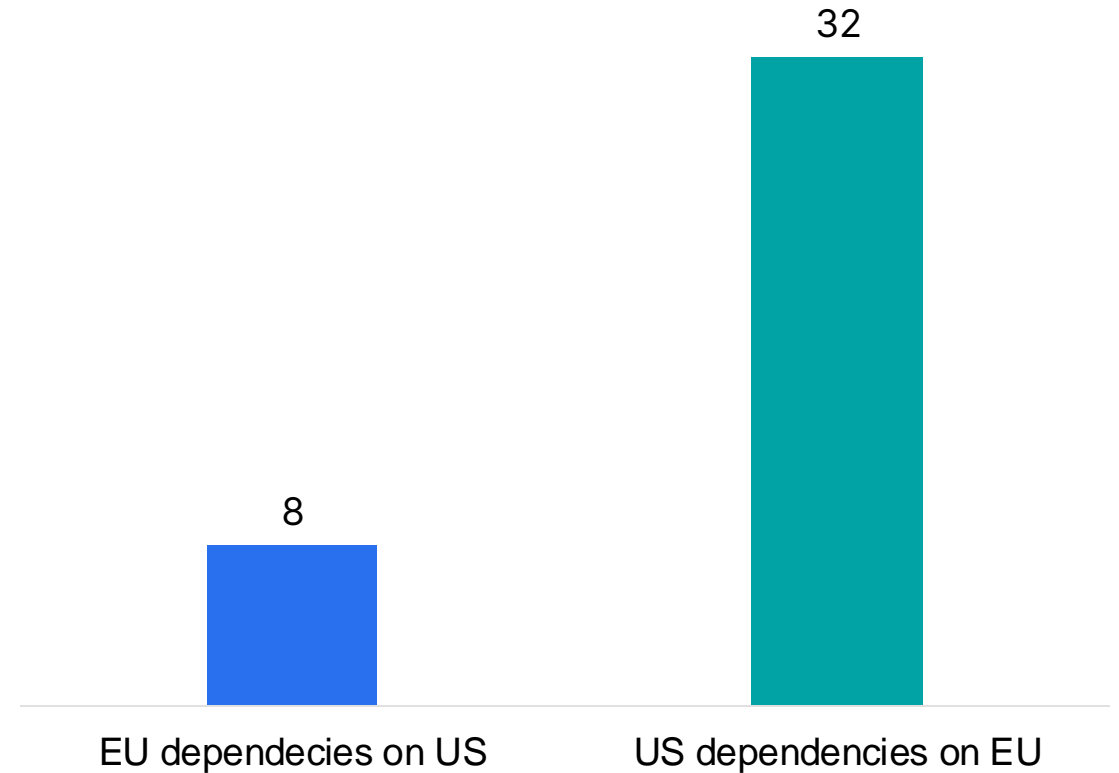
Europe and US depend on global trade – for different reasons

Exports, in % of GDP (2023)



Source: Eurostat, FRED, Erste Group Research

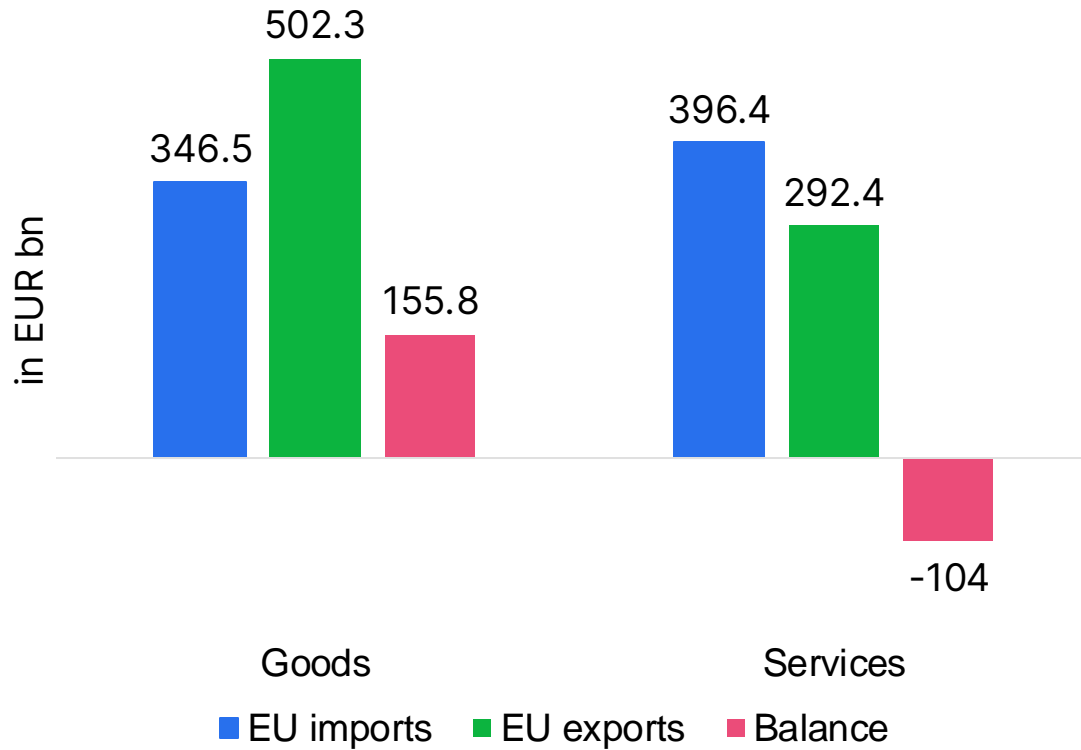
Number of import dependent products



Source: Lefebvre Wibaux, Erste Group Research

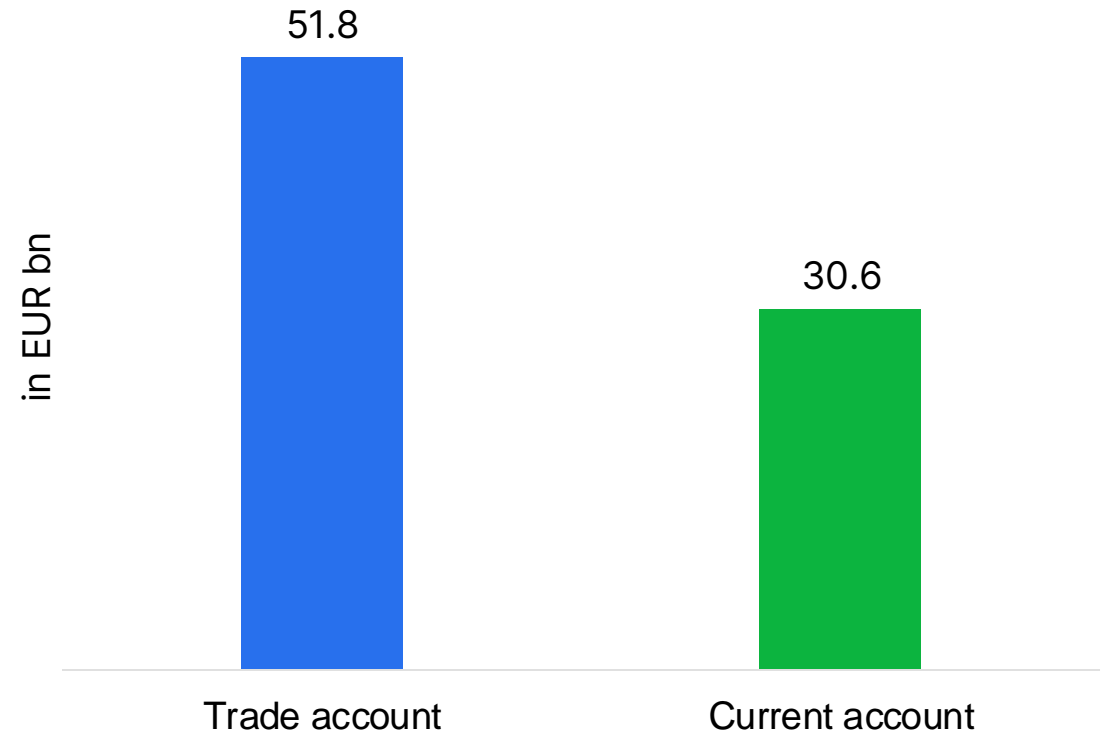
Different picture in trade between goods and services

EU - US goods vs. services balance, EUR bn (2023)



Source: EC, Erste Group Research

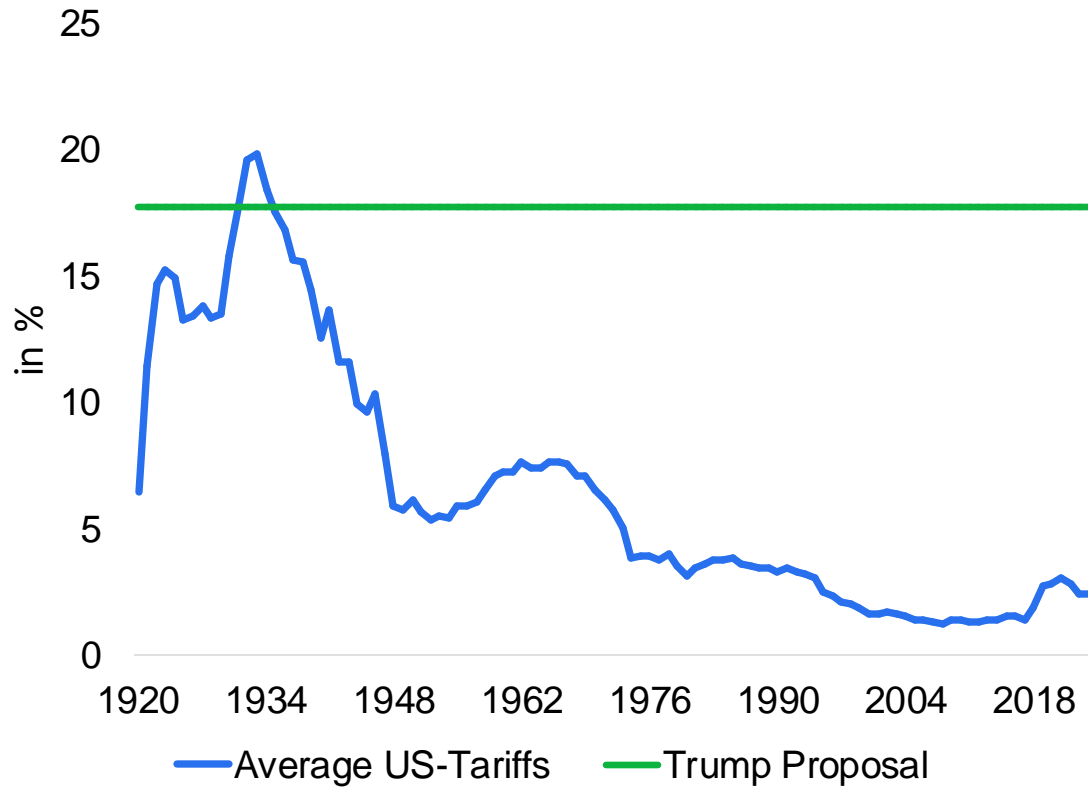
EU trade and current account with US, EUR bn (2023)



Source: EC, Erste Group Research

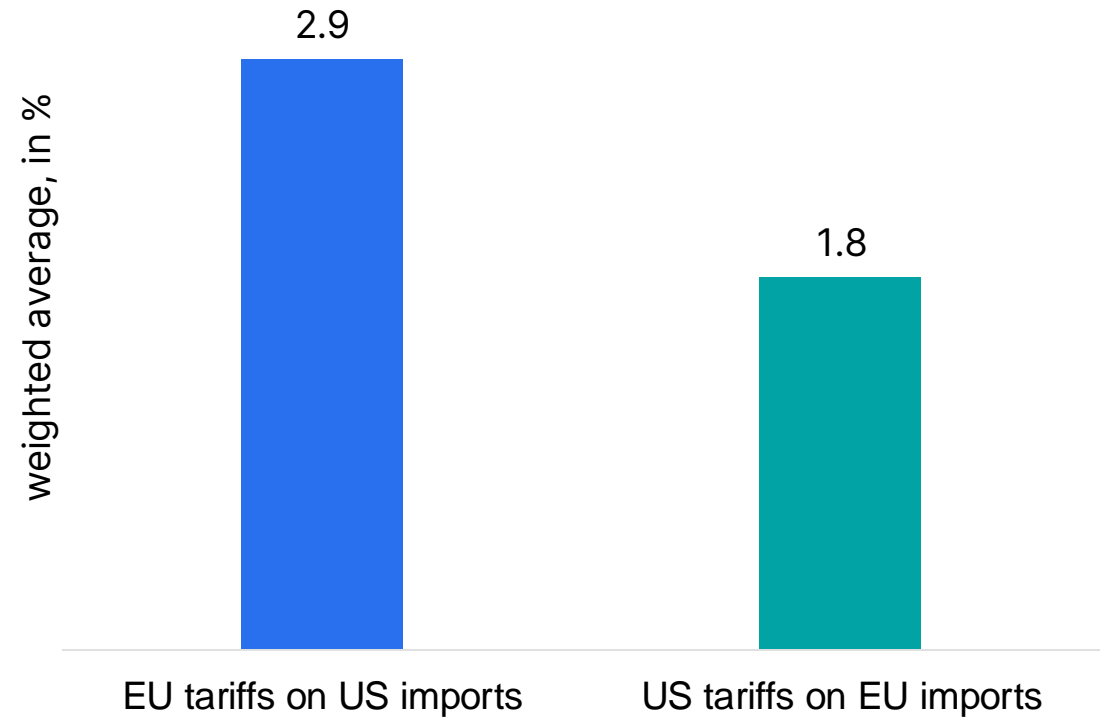
Trump plans would lift US tariffs substantially from current levels

US-tariffs on all global imports, in % (1920 – 2023)



Source: :taxfoundation.org, Erste Group Research

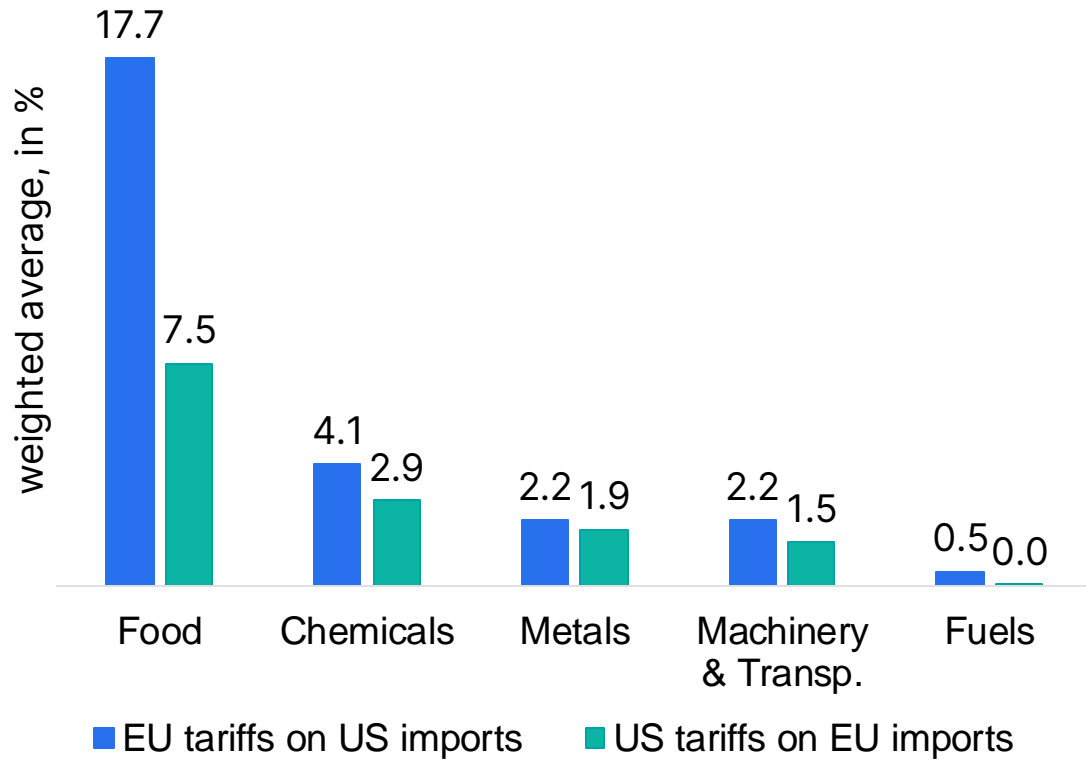
EU vs. US tariffs, in % (2022)



Source: WITS, Erste Group Research

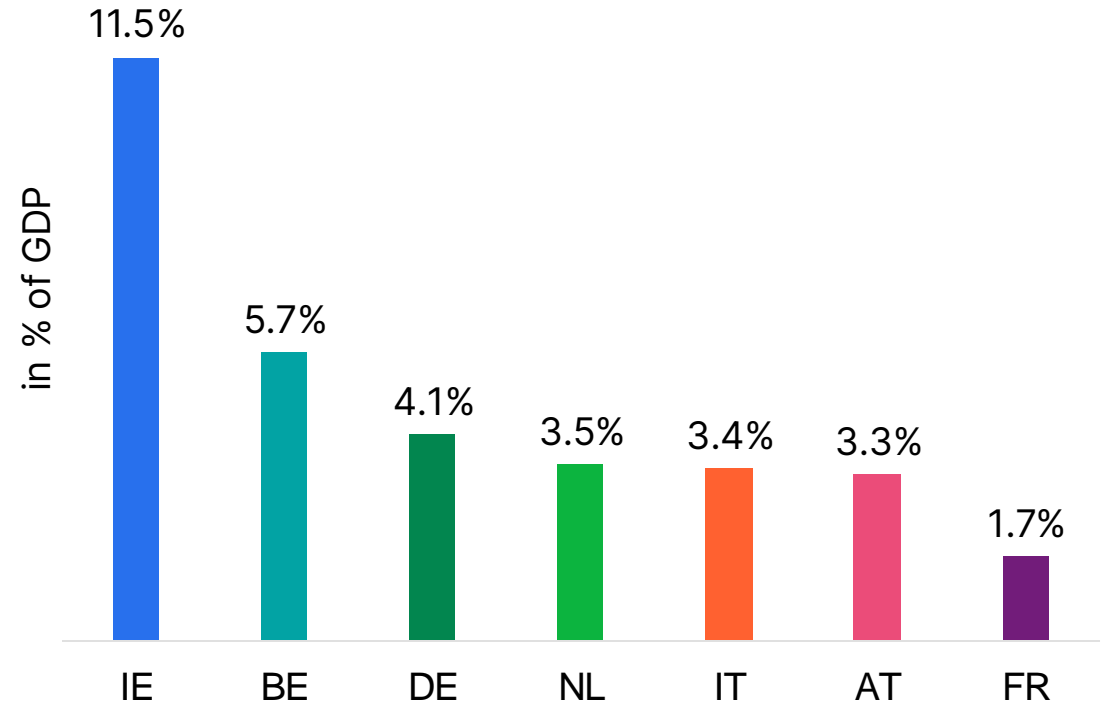
EU has higher tariffs in all major product categories

EU vs. US tariffs by category, in % (2022)



Source: WITS Erste Group Research

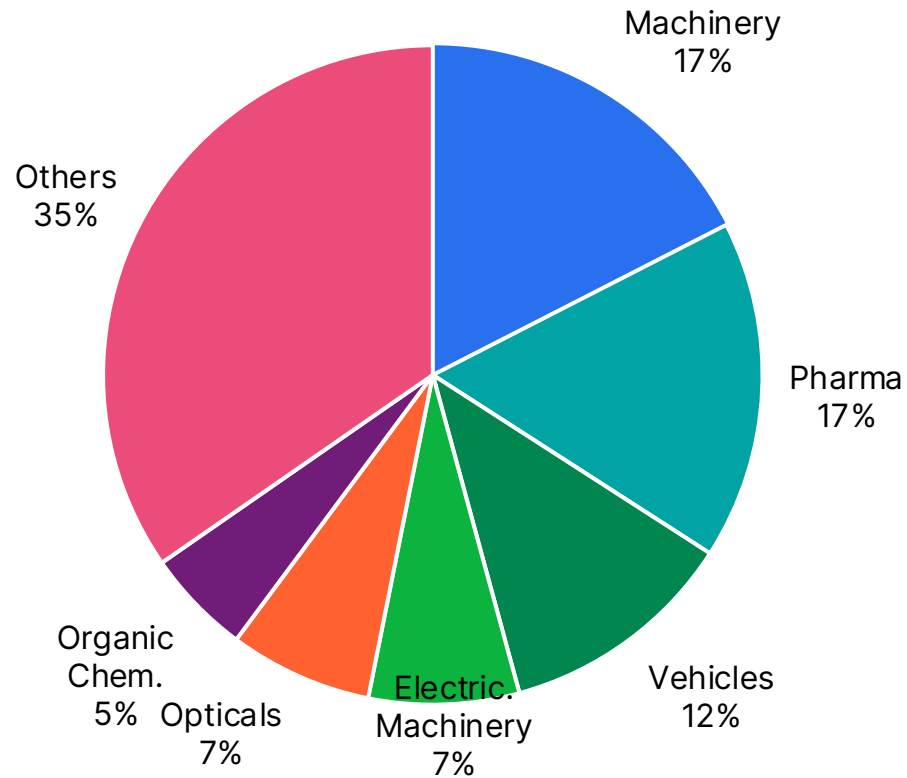
EU exports to US by country, in % of GDP (2023)



Source: trademap, Erste Group Research

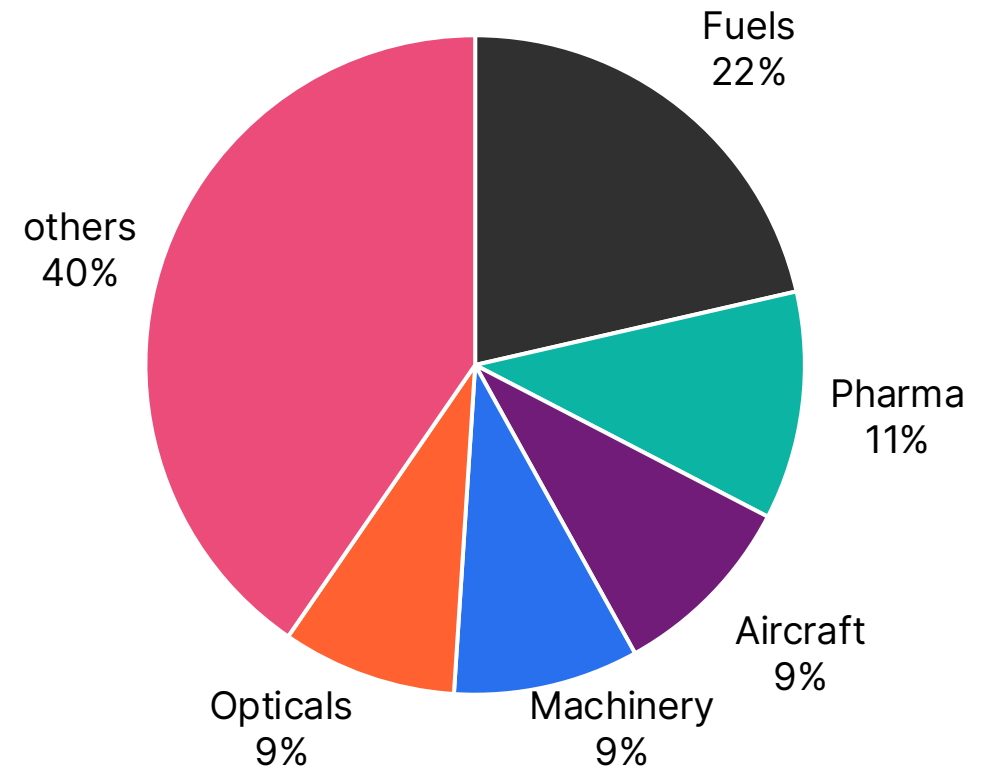
EU Machinery exports have biggest exposure to the US

EU exports to US by sectors



Source: trademap Erste Group Research

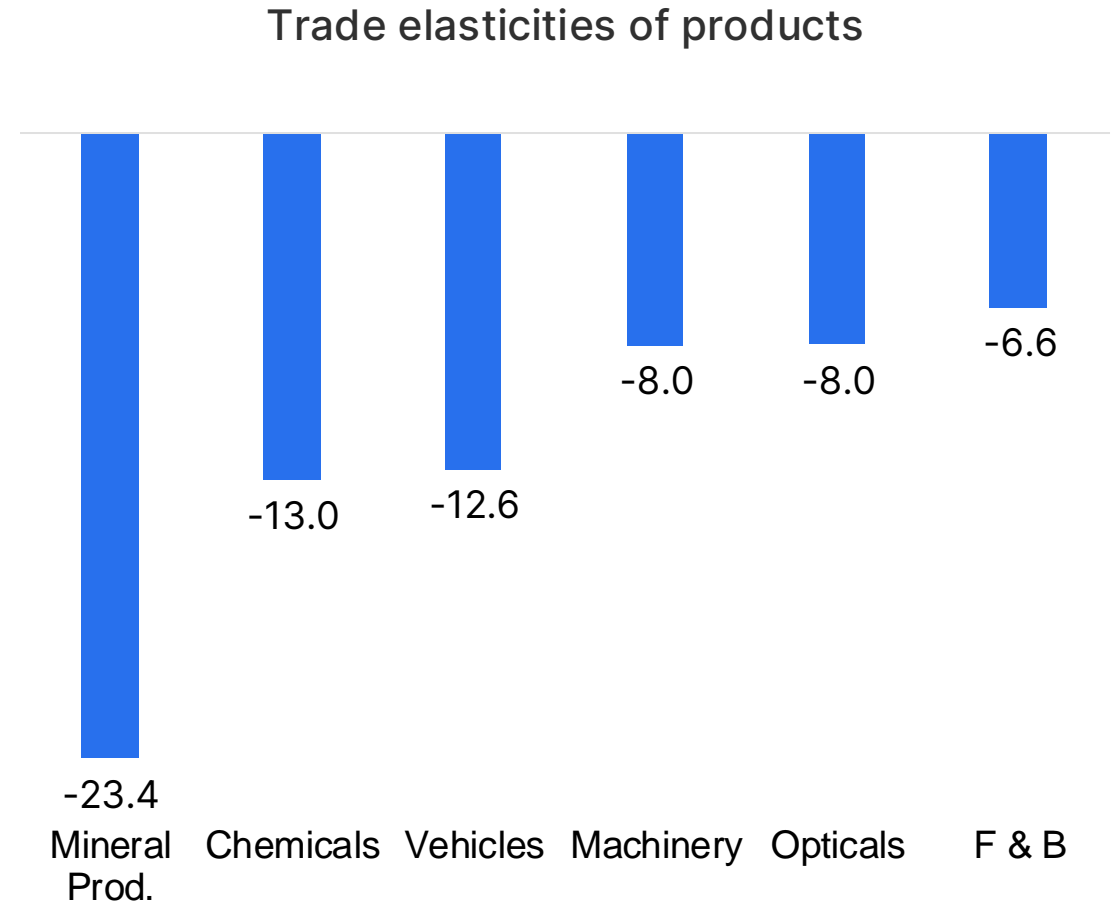
US exports to EU by sectors



Source: trademap, Erste Group Research

Demand for vehicles and chemicals most vulnerable to tariffs among important industries

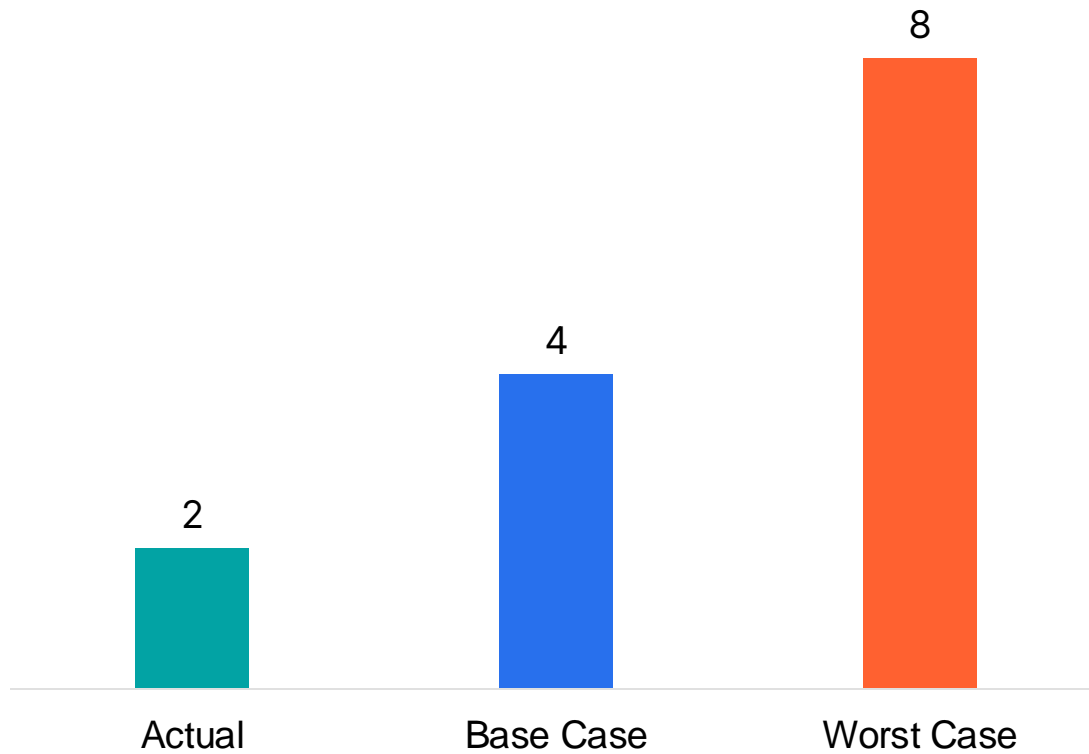
- Absolut importance of US-market in combination with sector composition makes Germany, Belgium and Ireland most vulnerable.
- For Italy and Netherlands we would expect a modest negative impact from potential tariffs.
- Due to low total exposure in combination with favorable sector composition we expect only a very limited impact on France and Spain.



Source: trademap, Erste Group Research

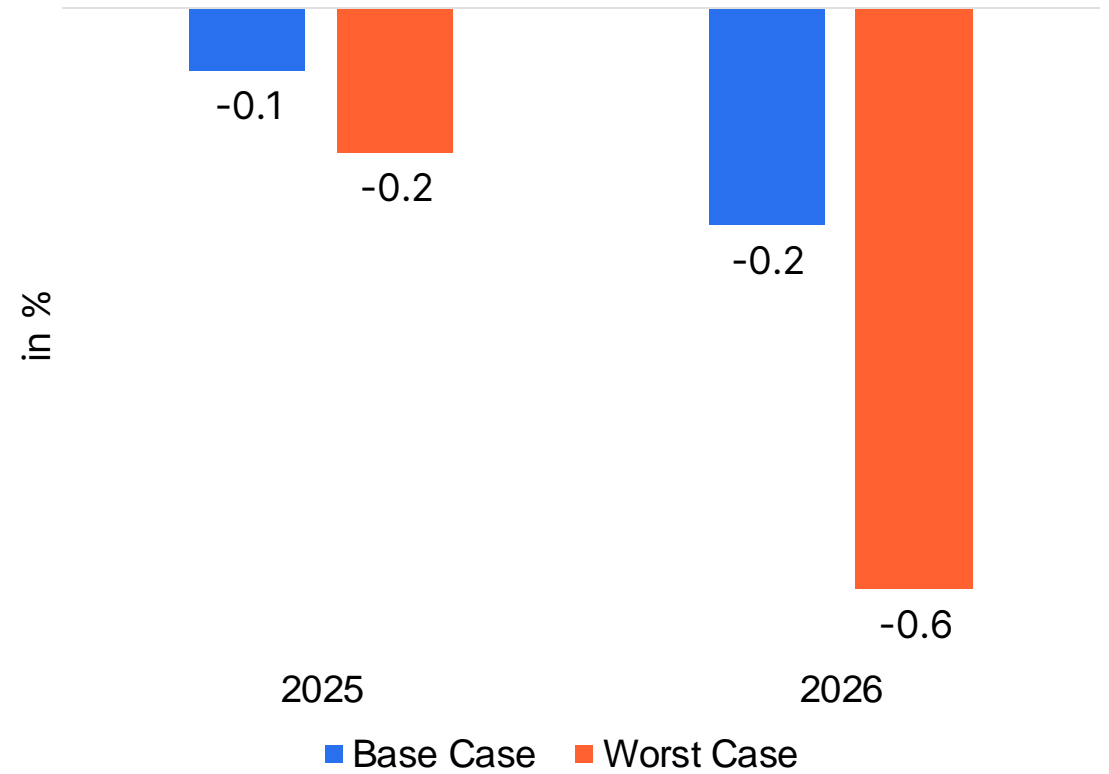
Substantial negative impact on growth from US tariffs possible

US tariffs on EU imports in %



Source: Erste Group Research

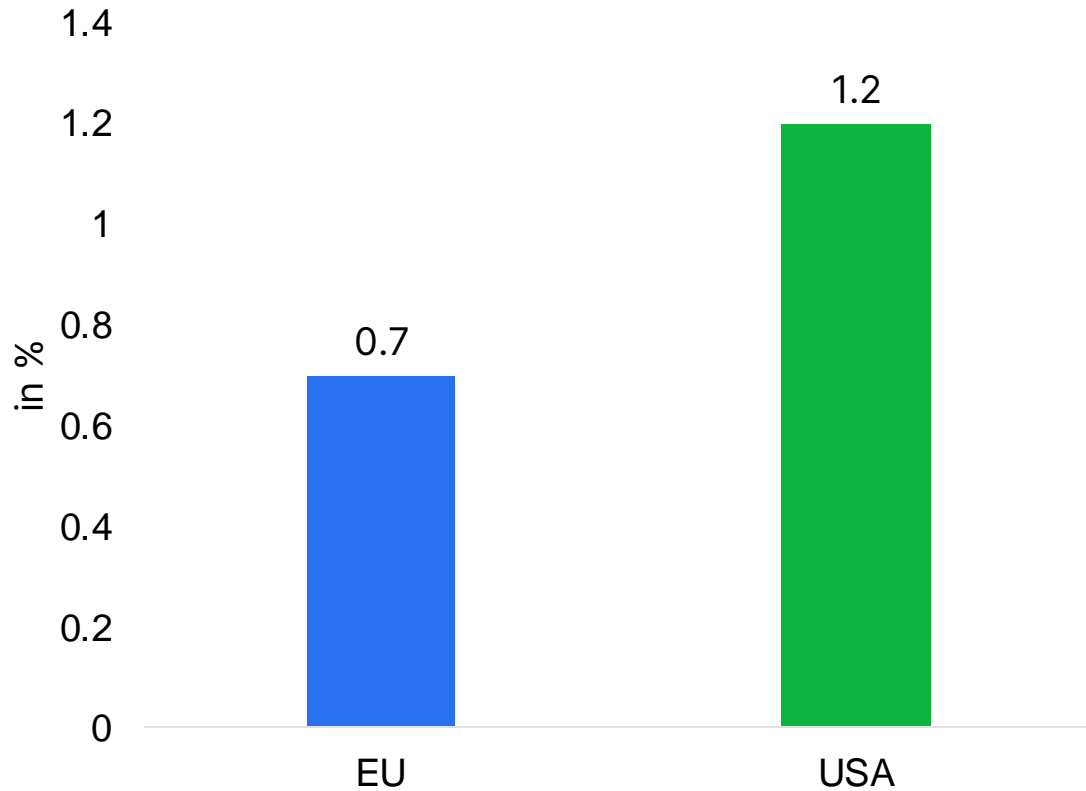
Eurozone GDP loss, in % cumulative



Source: Erste Group Research

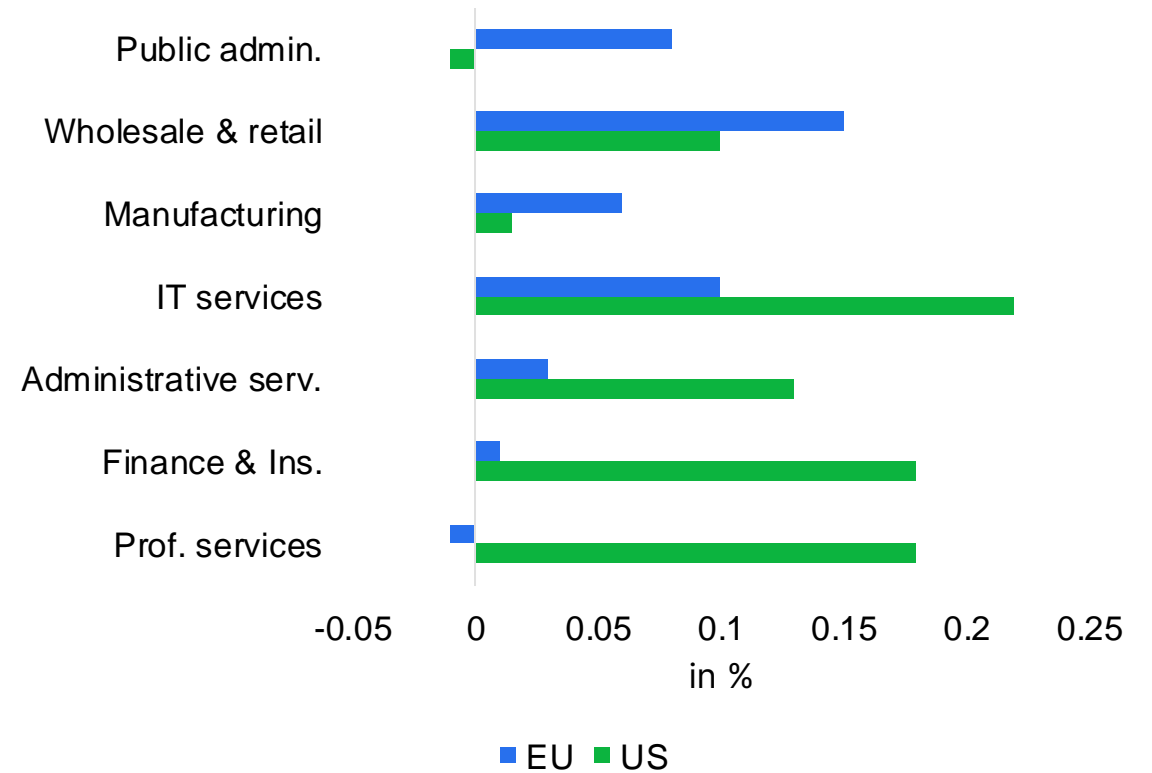
Substantial differences with regards to labor productivity compared to the US

Labor productivity / h 2000 – 2019 (growth p.a.)



Source: The future of European competitiveness, Erste Group Research

Labor productivity / h based on sectors 2000 – 2019 (growth p.a.)



Source: The future of European competitiveness, Erste Group Research

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as general information pursuant. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute a marketing communication pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication provides only other information without making any comment, value judgement or suggestion on its relevance to decisions which an investor may make and is therefore also no recommendation. Thus this publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation for a transaction in any financial instrument or connected financial instruments, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a financial or connected financial instrument in a trading strategy. Information provided in this publication is based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and does not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of a financial or connected financial instrument is not indicative for future results. No assurance can be given that any financial instrument or connected financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of financial instruments incl. connected financial instruments. Erste Group, principals or employees may have a long or short position or may transact in financial instrument(s) incl. connected financial instruments referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in financial instruments, connected financial instruments or companies resp. issuers discussed herein and may also perform or seek to perform investment services for those companies resp. issuers. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing restrictions.

Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2025. All rights reserved.

Published by:
Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m,
Commercial Court of Vienna

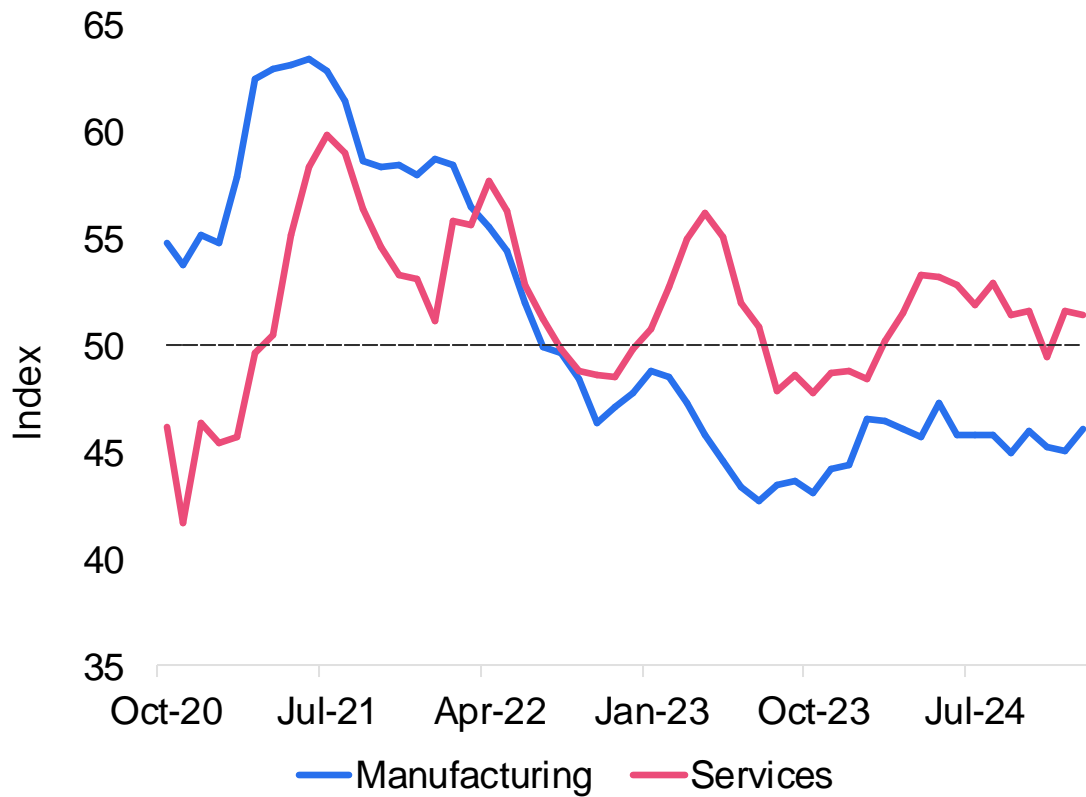
Erste Group Homepage: www.erstegroup.com

Appendix



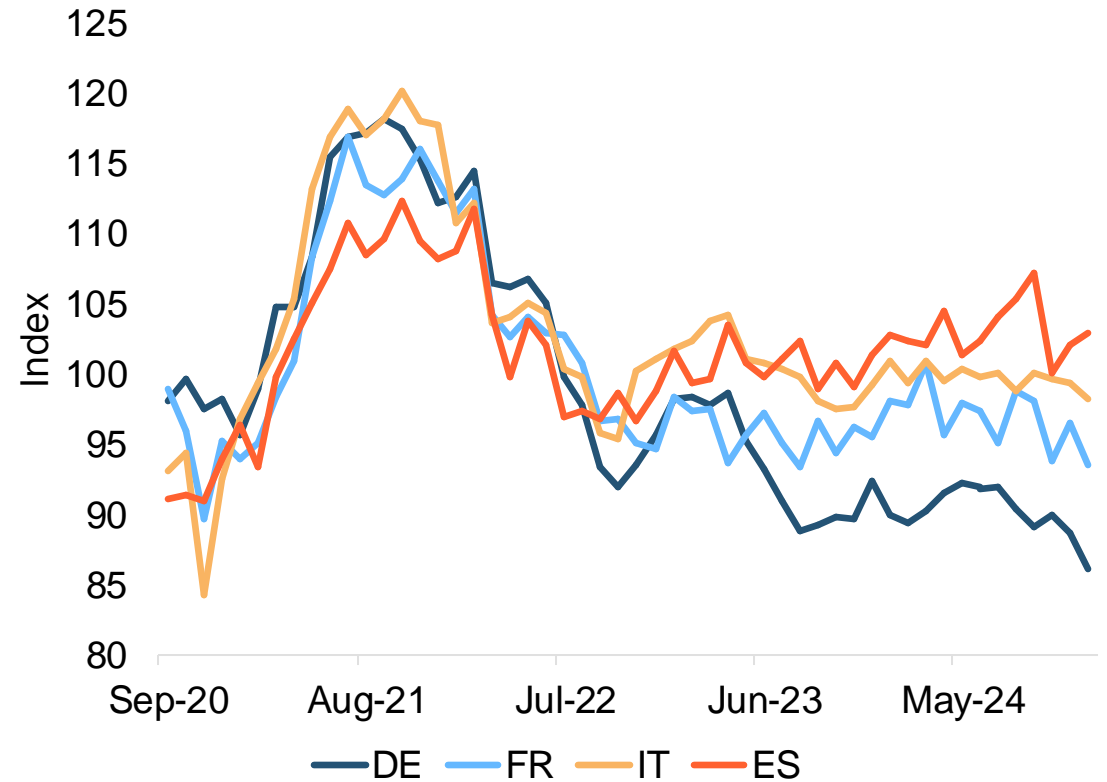
Sentiment in manufacturing improves in January

Eurozone PMI manufacturing vs. services



Source: Market data provider, Erste Group Research

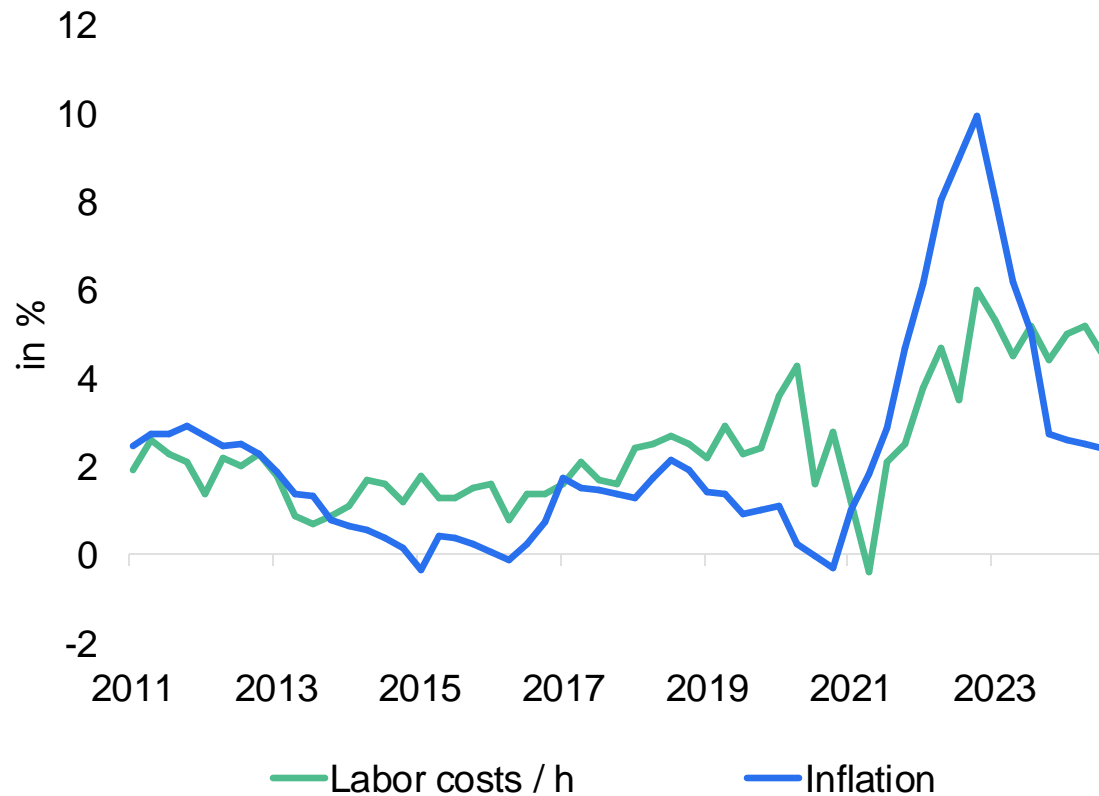
Economic sentiment DE, FR, IT and ES



Source: EC, Erste Group Research

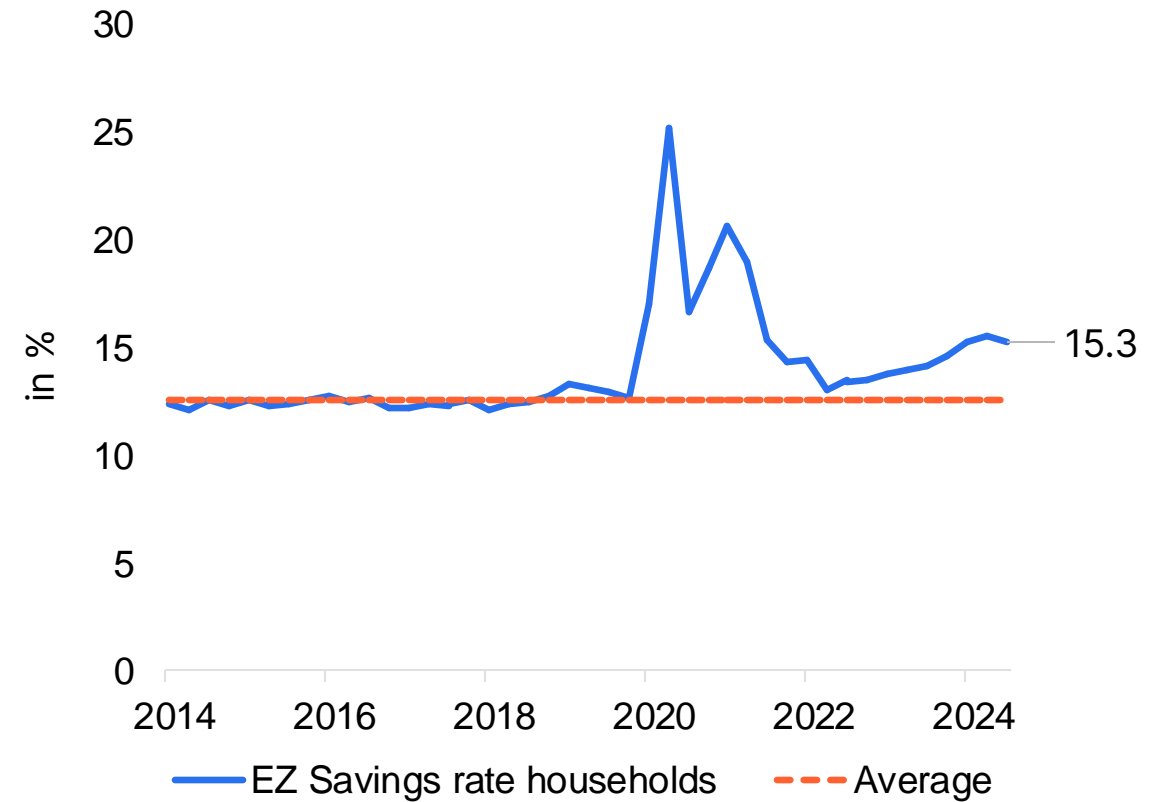
Financial situation of households is improving

Eurozone labor costs per hour vs. inflation



Source: Eurostat, Erste Group Research

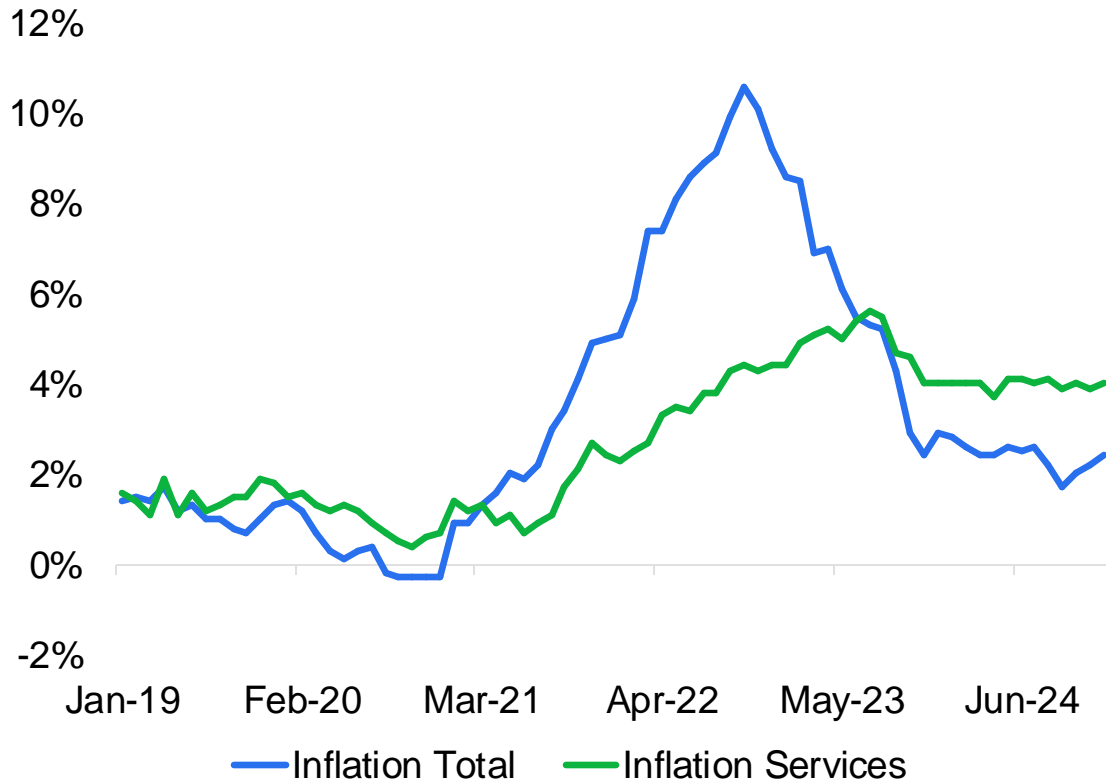
Eurozone savings rate households



Source: Eurostat, Erste Group Research

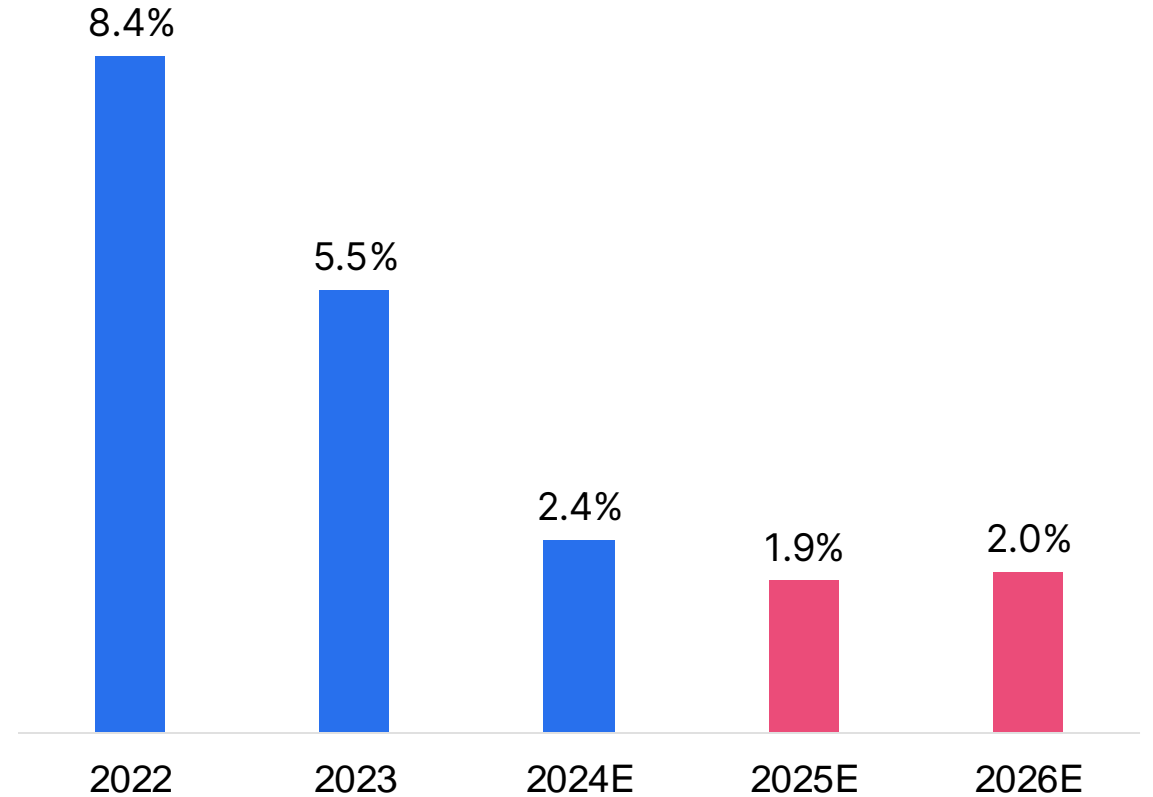
Services inflation still too high

EZ – goods vs. services inflation



Source: Eurostat, Erste Group Research

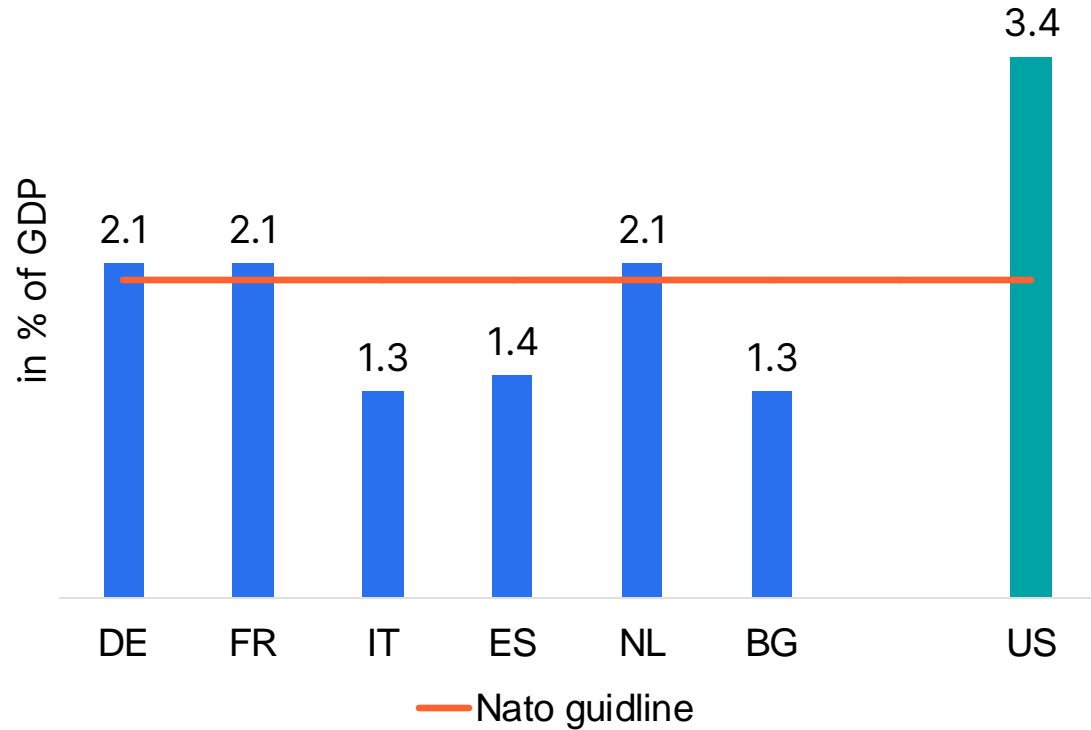
EZ inflation 2021 - 2025



Source: Eurostat, Erste Group Research

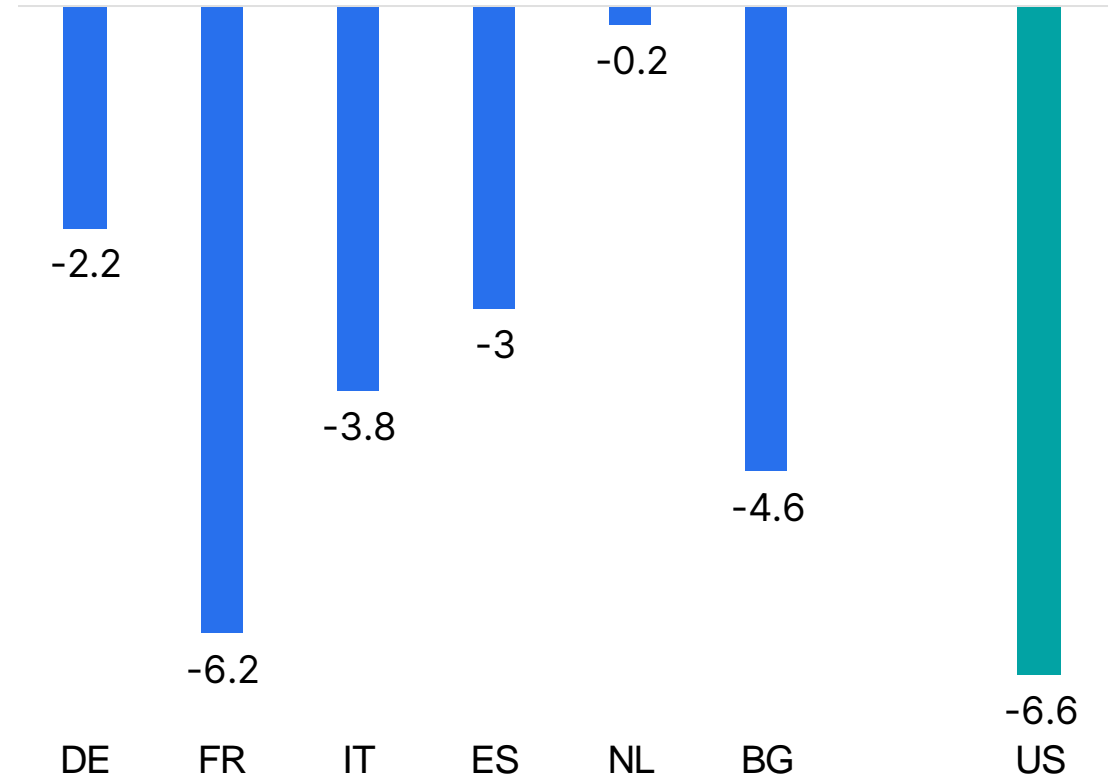
Defence spending will have to go up in Spain and Italy

Defence spending, in % of GDP (2024)



Source: NATO, Erste Group Research

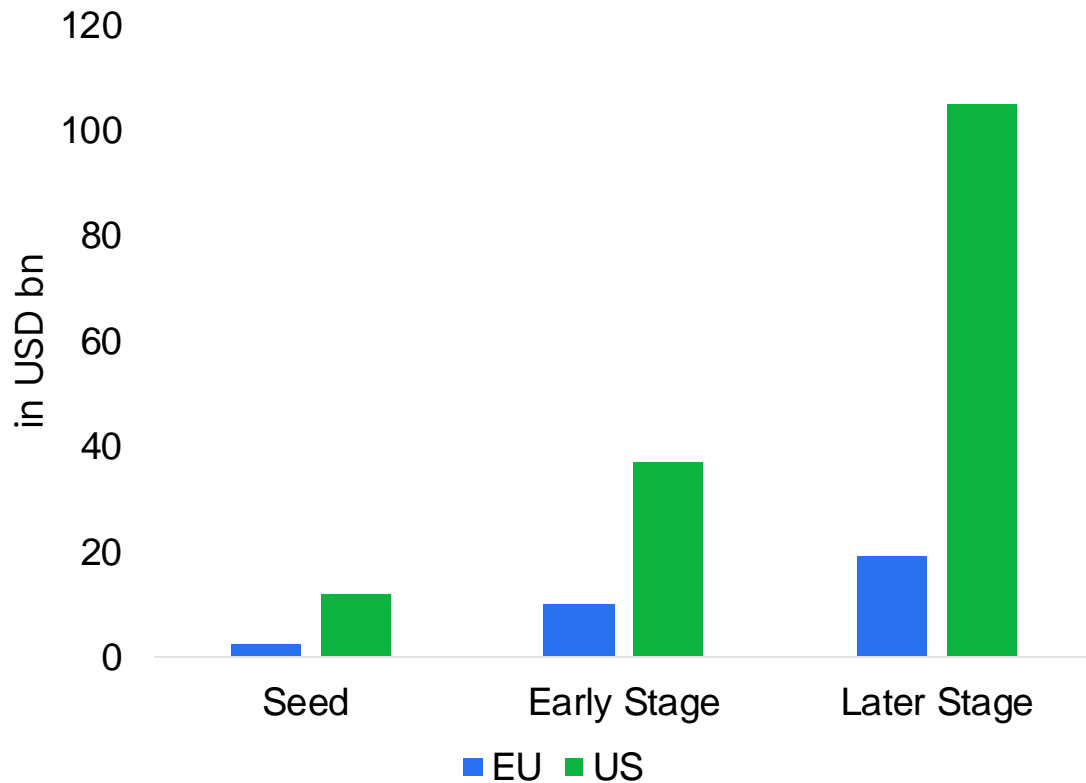
Public deficit, in % of GDP (2024)



Source: EC, CBO, Erste Group Research

Europe caught in the ‚Mid-Technology-Trap‘ ?

VC financing volume EU vs. USA



Source: The future of European competitiveness, Erste Group Research

Top-3 companies by R&D EU vs. USA

	2003	2012	2022
US	Ford (auto) Pfizer (pharma) GM (auto)	Microsoft (software) Intel (hardware) Merck (pharma)	Alphabet (software) Meta (software) Microsoft (software)
EU	Mercedes-Benz (auto) Siemens (electronics) VW (auto)	VW (auto) Mercedes-Benz (auto) Bosch (auto)	VW (auto) Mercedes-Benz (auto) Bosch (auto)
JPN	Toyota (auto) Panasonic (electronics) Sony (electronics)	Toyota (auto) Honda (auto) Panasonic (electronics)	Toyota (auto) Honda (auto) NTT (telecom)

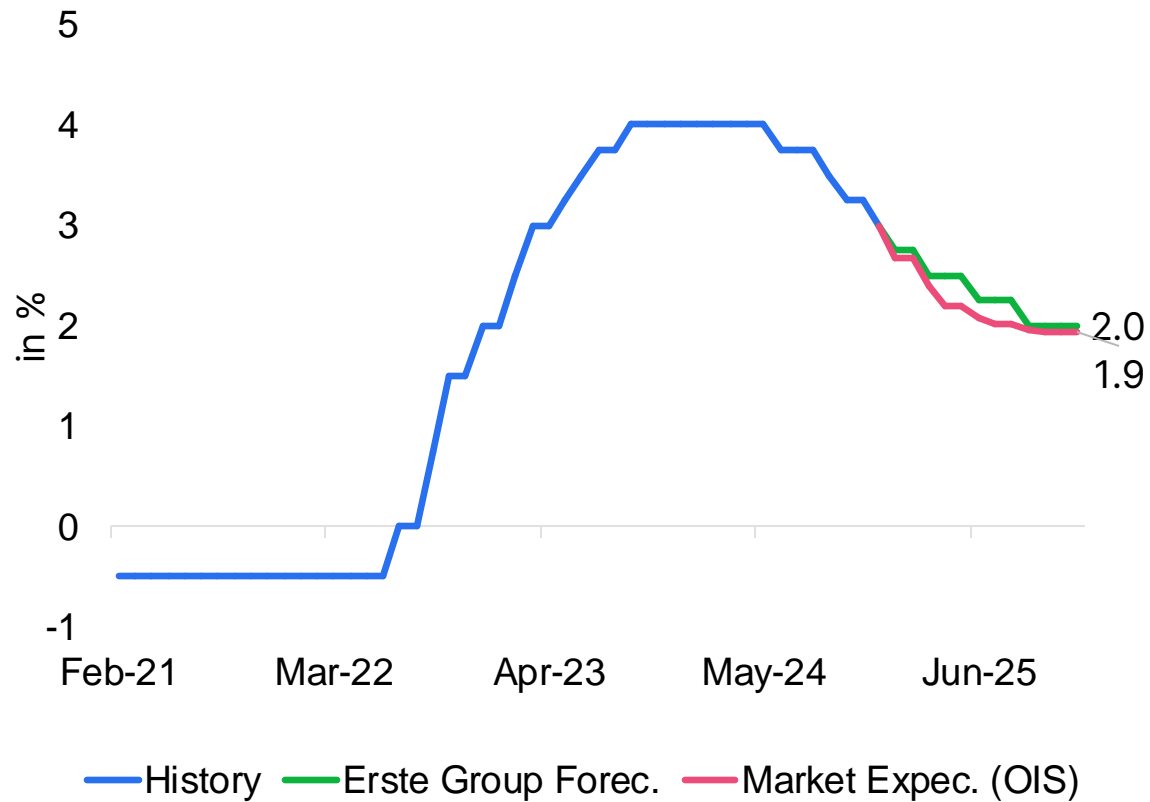
Source: Industrial R&D Investment Scoreboard, Erste Group Research

Interest rates outlook



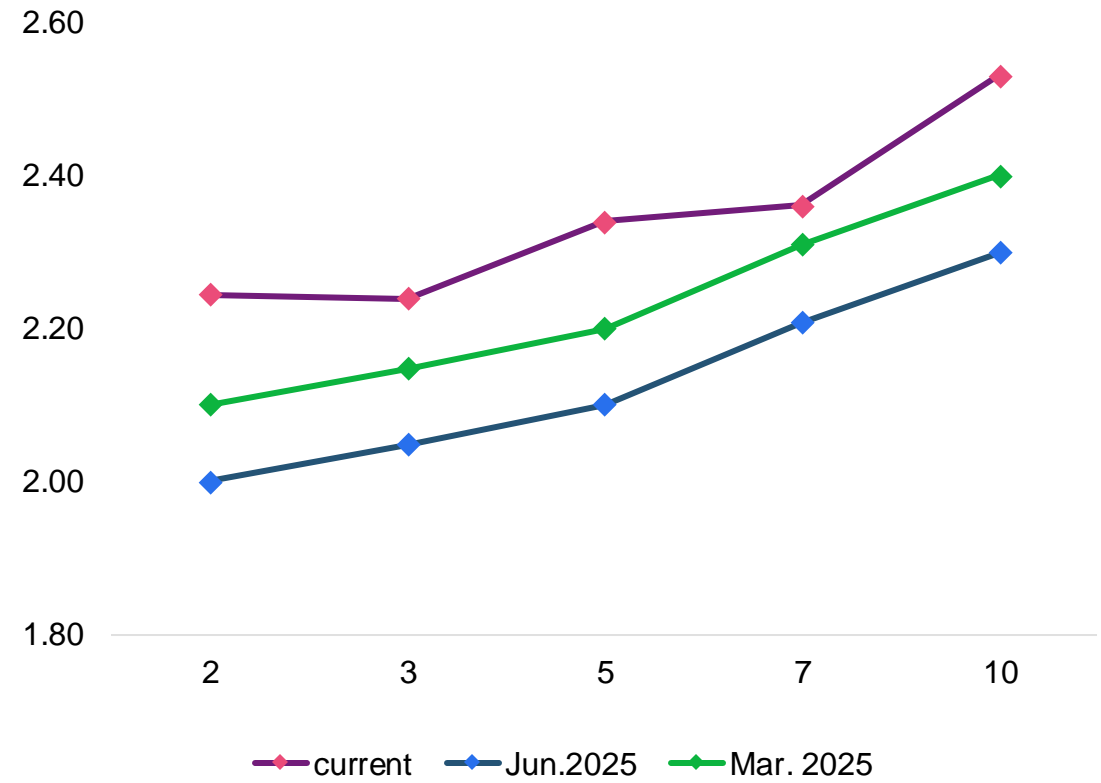
Market expects 4 rate cuts 2025

ECB Deposit Rate – 2025 Forecast



Source: market data provider, Erste Group Research

Forecast: German yield curve, y/y in %

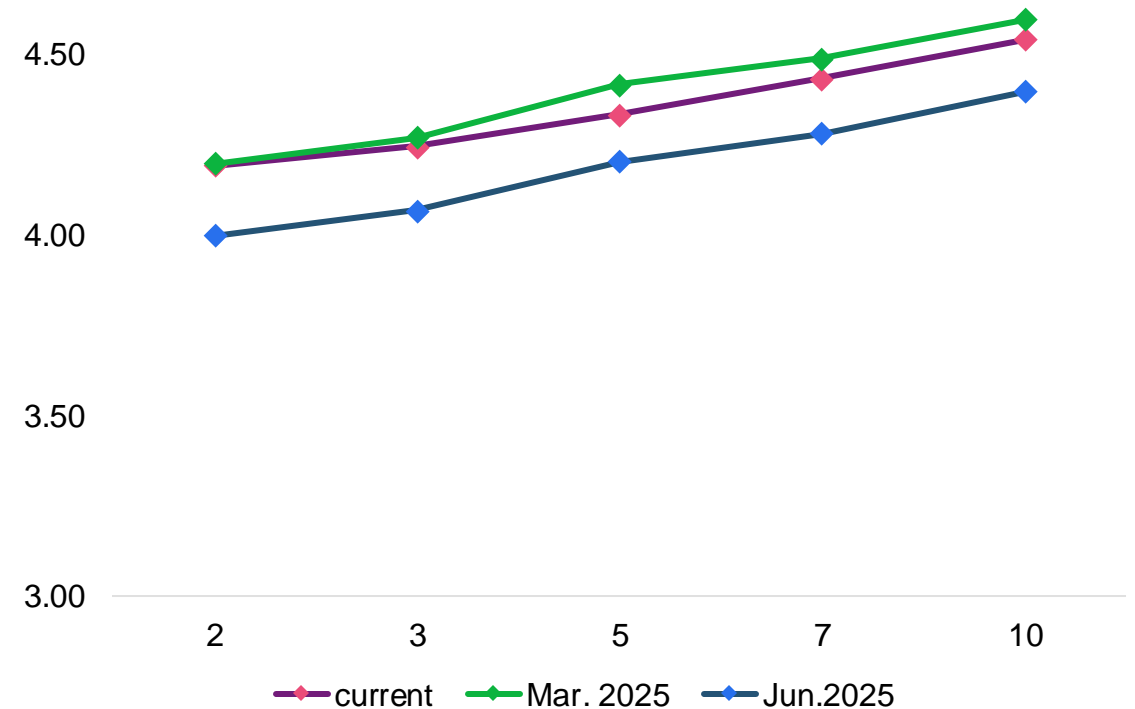


Source: market data provider, Erste Group Research

No rate cuts expected from US Fed in 1H 2025

- US economy remains in good shape.
- Healthy labor market with a stable unemployment rate.
- Slow progress in core inflation, mainly due to housing inflation data.
- We expect next rate cut 2025 in June.
- Yields have recently been very volatile.

Forecast: US yield curve, y/y in %



Source: Market data provider, Erste Group Research

Forecasts

GDP	2023	2024	2025	2026
Eurozone	0.4	0.7	1.0	1.0
US	2.9	2.8	2.0	1.8

Inflation	2023	2024	2025	2026
Eurozone	5.5	2.4	1.9	2.0
US	4.1	3.0	2.5	2.4

Interest rates	current	Mar.25	Jun.25	Sep.25	Dec.25
ECB MRR	3.15	2.65	2.40	2.15	2.15
ECB Deposit Rate	3.00	2.50	2.25	2.00	2.00
3M Euribor	2.64	2.46	2.22	1.98	1.99
Germany Govt. 10Y	2.54	2.40	2.30	2.30	2.20
Swap 10Y	2.49	2.40	2.50	2.55	2.50

Interest rates	current	Mar.25	Jun.25	Sep.25	Dec.25
Fed Funds Target Rate*	4.33	4.38	4.13	3.88	3.63
3M SOFR	4.29	4.33	4.08	3.83	3.58
US Govt. 10Y	4.55	4.60	4.40	4.30	4.20
EURUSD	1.05	1.03	1.03	1.05	1.06

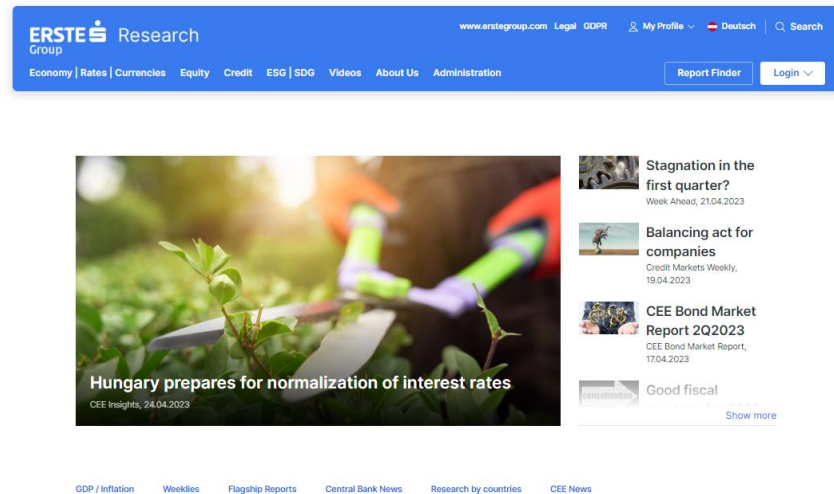
*Mid of target range

Prices as of January 27, 2024

Source: Market data providers, Erste Group Research

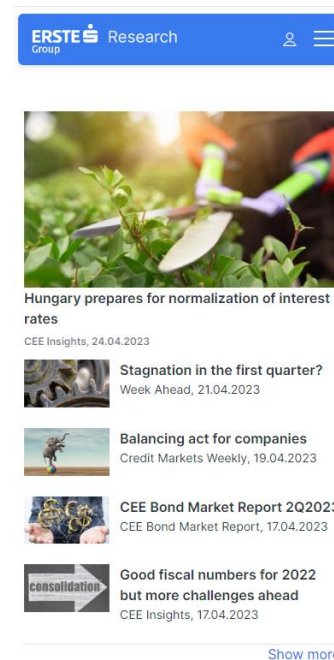
Macro reports & forecasts are publicly available on Erste Group's website and our mobile applications

Open in your **browser**



<https://www.erstegroup.com/en/research>

On your **mobile**



Scan our **QR code**



For more Research visit
[erstegroup.com/en/research](https://www.erstegroup.com/en/research)
or scan the code

Source: Erste Group Research

Contacts

Visit www.erstegroup.com or Bloomberg [ERSTE <GO>](#)

Erste Group Research (Vienna)

Fritz Mostböck, CEFA
Head of Group Research
+43 5 0100 11902
friedrich.mostboeck@erstegroup.com

Juraj Kotian
Head of CEE Macro/ FI Research
+43 5 0100 17357
juraj.kotian@erstegroup.com

Rainer Singer
Head of Major Markets & Credit Research
+43 5 0100 11909
rainer.singer@erstegroup.com

Henning Eßkuchen
Head of CEE Equity Research
+43 5 0100 19634
henning.esskuchen@erstegroup.com

Lokale Research Offices

Bratislava
Slovenska Sporitelna
Head: Maria Valachyova
+421 (2) 4862 4158
valachyova.maria@slsp.sk

Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
DNavratil@csas.cz

Budapest
Erste Bank Hungary
Head: Jozsef Miro
+36 (1) 235 5131
Jozsef.Miro@erstebroker.hu

Warsaw
Erste Securities Polska
Head: Cezary Bernatek
+48 22 257 5751
Cezary.Bernatek@erstegroup.com

Bucharest
Banca Comerciala Romana (BCR)
Head: Ciprian Dascalu
+40 3735 10 424
ciprian.dascalu@bcr.ro

Zagreb/ Belgrade
Erste Bank
Heads: Alen Kovac, Mladen Dodig
+385 72 37 1383, +381 1122 09178
akovac2@erstebank.com
Mladen.Dodig@erstebank.rs