

# What to watch: Trade deals or trade wars?

## Germany's insoluble budget equation and tariffs diminishing carmakers' reshoring prospects

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### In summary

**EU-US deal gives the US an edge as the trade war starts to bite.** The 15% tariff to be applied to most EU goods is slightly lower than the 20% announced on "Liberation Day" – or the 30-50% threatened since then – but still much higher than the initial conditions. As part of the deal, the EU agreed to purchase energy and military equipment from the US and to invest in the US. This seems quite far from the strategic autonomy rhetoric of the past few months. Economically, the deal aligns largely with our previous expectations, implying EU export losses of around EUR 50bn (0.3% of GDP) compared to 2024 levels. Market reactions suggest the agreement is more favorable to the US than expected, with the euro losing 1.7% initially. Meanwhile, Q2 GDP data on both sides of the Atlantic indicate that the trade war is already starting to bite. The frontloading of exports to the US reversed in Q2, with net trade (lower imports) supporting US growth (up from -0.1% in Q1 to +0.7% q/q in Q2, non-annualized) but dragging on the Eurozone (down from +0.6% to +0.1% in Q2). Looking at domestic demand, US growth looks much weaker with only +0.3% q/q, similar to the Eurozone, amid low consumer and business confidence. Going forward, we expect US inflation to rise to close to 4% by year-end and growth to slow as the latest tariff decisions will push the US global tariff rate to 16% by 7 August, from 13% currently. Meanwhile, Eurozone inflation stayed put at 2.0% y/y in July, which combined with the ECB's hawkish tone last week would mean the ECB may not be able to deliver two additional rate cuts this year as previously expected.

**Germany's budget equation lacks some (fiscal) terms to be soluble.** Germany's 2026 budget has public investment rising to EUR127bn and defense spending reaching EUR82bn. Rising core expenditures mask the sharp decline in federal spending, not seen since the 1990s. As a result, net borrowing will rise from EUR81.8bn in 2025 to EUR89.9bn in 2026, with accumulated net borrowing across the legislative period 2025 to 2029 approaching EUR807bn. But much of this is kept outside the core budget, concealing fiscal constraints. Discretionary spending could fall from 22% in 2026 to below 5% by 2035, pressured by social benefits and interest payments, which are projected to double by 2029. Future-oriented investments (education, infrastructure, digitalization, climate) are now highly dependent on temporary special funds which finance one-third in 2025, 56% in 2026 and two-thirds by the end of the legislative period. To ensure fiscal sustainability and growth, structural reforms alongside a strategic budget reset are essential.

**Could tariffs prevent car makers from reshoring?** A 15% tariff could be a Pyrrhic victory for the United States. It would give European and Japanese carmakers an advantage over their Mexican and Canadian counterparts, who would face a 25% tariff on cars produced for the US market. Yet, we do not expect a wave of reshoring, especially amid lower policy support for electric vehicles and weaker cash-generation capabilities. We find that US domestic production capacities have risen +9% this year, increasing their share of global automobile production by a noticeable +1.5%. Ultimately, automakers are battling bigger challenges, including decreasing demand in developed economies, higher competition from Chinese brands and less fiscal support for EVs in Europe and the US. In 2025, corporate margins are expected in the low-to-mid single digits, forcing companies to focus on short-term profitability and cash-flow generation, rather than reshoring.

## EU-US trade deal gives the US an edge as the trade war starts to bite

**The EU and US reached a high-level trade deal just ahead of the 1 August deadline. While the agreement is slightly worse than expected for Europe, it removes the tail risk of significantly harsher tariffs.** EU exports to the US will now face a "reciprocal" tariff of 15%, compared to the current 10%.<sup>1</sup> This is still lower than the 20% announced on "Liberation Day" and the 30-50% threatened in May and early July. Similar to the US-Japan deal, autos and auto parts will face a 15% tariff rate, but what is more groundbreaking is that pharmaceuticals and semiconductors will also be subject to 15%, lower than the previously assumed 25%. Steel and aluminium tariffs remain at 50%, in line with the rest of the world. Beyond tariffs, the EU agreed to purchase USD750bn in US energy products over three years, invest USD600bn in the US and buy "vast amounts" of military equipment, though these figures likely aggregate private investment intentions and reflect already-anticipated defense imports. The higher tariffs will be painful but are largely in line with our earlier estimations<sup>2</sup>. The EU will incur export losses of around USD50bn (0.3% of GDP) compared to 2024 levels, with Germany, Ireland, Italy and France most affected. The stronger euro could entail additional export losses equivalent to -0.2% of GDP, bringing the total GDP impact close to -0.5%, all else equal. However, many details remain unclear, leaving the full impact uncertain. On the one hand, further tariff exemptions on certain product categories could follow; on the other, additional tariff threats from the White House cannot be excluded.

**More broadly, the trade deal underscores the fact that Europe struggles to fully leverage its economic strength in global negotiations.** But with exports to the US amounting to 3.5% of GDP compared to only 1.2% in the other direction (US exports to the EU as a share of US GDP), the bloc clearly had more to lose. Moreover, in times of geopolitical tensions, the EU is more dependent on the US for military support than ever, further diminishing its bargaining power. At best the deal provides temporary relief by removing the imminent threat of a full-fledged EU-US trade war. But with no immediate crisis and uncertainty now reduced, the risk is that the EU further delays long-overdue economic and political reforms. While a no-deal outcome would not have been desirable, it might have pushed EU leaders to make more meaningful progress on achieving strategic sovereignty. This reinforces the emerging image of the EU as a fragmented political union and military lightweight, with a budget (on the EU level) still heavily skewed toward agriculture rather than strategic capacity.

**The US also announced tariff decisions with the rest of the world this week, likely raising its global effective import tariff rate to 16% by 7 August (from 13% currently and less than 3% at the end of 2024).** In the past few days, the White House released several executive orders regarding the US trade policies. "Reciprocal" tariff hikes initially announced on 2 April ("Liberation Day") have been adjusted for 68 countries (beyond the EU), taking effect from 7 August. Trade partners outside this list will face +10pps tariff hikes. Brazil is facing the steepest hike, with the US effective tariff rate rising to 40%, from 14% currently. While Mexico managed to secure a 90-day extension against further tariff hikes, Canadian exporters will see the US tariff rise to 35% from 25% (but with USMCA-compliant goods remaining duty-free and the tariff on energy and potash unchanged at 10%). Switzerland is also subject to a worse-off tariff hike, while several Asian exporters managed to secure smaller tariff hikes than initially planned. Additionally, by 7 August, the US will also be applying 50% tariff on copper imports. Official communications suggest that tariffs may change again in the future, if further deals are reached. We are also still awaiting a formal announcement of the likely extension of the tariff truce with China. As things stand, the US global effective import tariff rate reaching 16% by 7 August would bring it to the highest level since the 1930s (outside a brief period in April this year, when it came close to 30%).

**Markets reacted mildly to the EU-US trade deal but turned more negative after the remaining trade deals were announced over the course of the week, confirming that the transatlantic trade deal was broadly anticipated while the harsher stance against others was seen as a net negative to the global economy.** The euro fell 1.7% in the two days after the EU-US trade deal (before dropping another 1.2% after the hawkish Fed), while EU stock indices remained largely flat. Comparing equity indices on both sides of the Atlantic in USD terms, the comparatively stronger S&P 500 (-0.3%) and weaker Stoxx Europe 600 (-1.5%, market reaction before GDP data, the Fed and

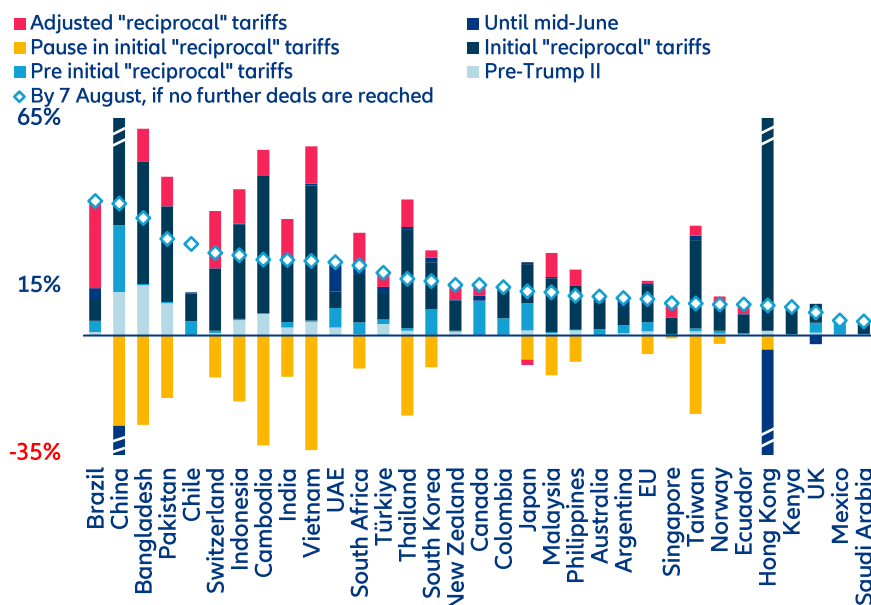
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<sup>1</sup> See [EU-US trade deal explained](#)

<sup>2</sup> See [Allianz | What to watch | July 25, 2025](#)

remaining trade deals) suggest the deal was perceived as relatively more favourable for the US. However, the reaction was modest compared to year-to-date moves, implying the outcome was largely priced in. Over the course of the week, however, as the remaining trade deals were announced and the Fed delivered a hawkish pause, markets turned more to the red.

Figure 1: US bilateral effective tariff rates (%)



Note:

- Pre initial "reciprocal" tariffs: "Fentanyl" tariffs on China, Canada and Mexico, tariffs on steel & aluminum, autos & auto parts
- Initial "reciprocal" tariffs: 2 April executive order and retaliations with China. Effective tariff rate reached 103% on China, 94% on HK
- Pause in initial "reciprocal" tariffs: 9 and 11 April decisions to pause "reciprocal" tariffs for 90 days, and include further product exemptions
- Until mid-June: further tariff hikes on steel & aluminum, deal with the UK, truce with China and HK (cutting respectively by -63pps and -85pps)
- Adjusted "reciprocal" tariffs: executive orders on 30-31 July
- By 7 August, if no further deals are reached: accounting for adjusted "reciprocal" tariffs as well as tariffs on copper

Source: Allianz Research

**This week's GDP figures from both sides of the Atlantic show that the trade war is already taking a toll. US GDP grew by a strong +3.0% q/q annualized (+0.7% non-annualized) in Q2 2025, rebounding from -0.5% (-0.1% non-annualized) in Q1. However, looking at domestic demand (+1.2% q/q annualized), US underlying growth continued to soften noticeably amid low consumer and business confidence.** The Q2 3.0% rise was a touch higher than our forecast embedded in our June economic outlook (+2.8%). The surge in imports seen in Q1 – boosted by frontloading for certain products – was entirely reversed in Q2, helping to boost GDP growth. Exports contracted -1.8%, dragged down by a sharp fall in goods exports. On the domestic front, underlying demand continued to soften as persistent weak consumer and business confidence are taking their toll. Consumer spending grew by a meagre +1.4% over the quarter and non-residential investment by +1.6%. Household consumption growth picked up, following the partly weather-driven weakness in Q1. Nevertheless, this marks a slower pace than seen in recent years, though, encouragingly, US households are not cutting back as much as suggested by very downbeat consumer sentiment surveys. Business spending on structures and entertainment was particularly weak, though it was partially offset by continuous strong gains in IT & machinery equipment and intellectual property spending. Residential investment continued to struggle, held down by persistently high mortgage rates, dropping by a sharp -4.6%, after -1.3% in Q1. In all, growth in sales to private domestic purchasers, seen as the best indicator of underlying growth of the economy, slowed to just +1.2%, its weakest since late 2022, from +1.9% in Q1. At the beginning of the current quarter (Q3 -2025), consumer and business surveys are sending mixed signals. Overall, though, business surveys in July (composite PMI and regional Fed surveys) point to resilient growth, pointing to upside risks to our



+1.0% forecast in Q3 embedded in June economic outlook. Nevertheless, we continue to expect underlying growth to slow down significantly from Q3 and in the following quarters amid rising tariff-driven inflation and a slowdown of the labor force.

**Eurozone growth nearly stalled after the Q1 frontloading boost.** As expected, the Eurozone economy slowed sharply in Q2, with growth decelerating from +0.6% q/q (+1.5% y/y) in Q1 to +0.1% q/q (+1.4% y/y). The flash estimate, broadly in line with consensus and our forecast (+0.0%), is based on limited country-level data, with fuller details to follow. The Iberian Peninsula again led the bloc, with Spain and Portugal growing +0.7% and +0.6% q/q, respectively. Germany and Italy both contracted slightly (-0.1% q/q), while France expanded by +0.3% q/q. Ireland – known for volatile swings – slumped -1.0% q/q after surging +7.4% q/q in Q1, dropping from first to last in the growth rankings. The overall slowdown reflects the expected reversal of export frontloading to the US ahead of tariff hikes, subtracting an estimated 0.3pp from Q2 growth after contributing +0.2pp in Q1. However, domestic demand remained resilient, with private consumption and investment expanding near long-term averages for the fourth straight quarter. Investment is still 3% below 2019 levels and consumption only 3% above, making them the laggards among GDP components. With trade war uncertainty easing but tariffs still elevated, we maintain our growth forecasts of +1.2% for 2025 and +1.1% for 2026 (+0.9% and +1.4% excluding Ireland).

**Germany's GDP contracted slightly by -0.1% q/q (0.0% y/y) in Q2 2025, following a surprise +0.4% growth in Q1.** Investment in construction and machinery equipment weakened this quarter but is expected to pick up with the introduction of a 30% depreciation rate over three years starting in June. Household and government consumption increased, while exports likely declined due to the unwinding of tariff frontloading. While economic stimulus is boosting business sentiment, higher trade costs are weighing on the ifo business climate and PMIs. The services sector remains on an upward trend. However, an increasing number of manufacturing sectors are also signaling a recovery. Overall, full-year GDP growth is forecast to remain subdued at around +0.1%. Germany is reshuffling its economic strategy with a bold fiscal package and investment incentives designed to spur recovery after two years of recession. The government aims to counter external risks, such as higher US tariffs and global fragmentation, through public and private investment. Key initiatives include generous depreciation rates, R&D tax incentives, a EUR500bn infrastructure fund, increased defense spending and corporate tax cuts totaling -5pps from 2028 onward. The full benefits of these fiscal measures are expected to materialize from 2026 onwards. For sustained growth, Berlin must streamline bureaucracy and accelerate investments in green and digital transitions to boost productivity. If successful, economic momentum could improve even sooner.

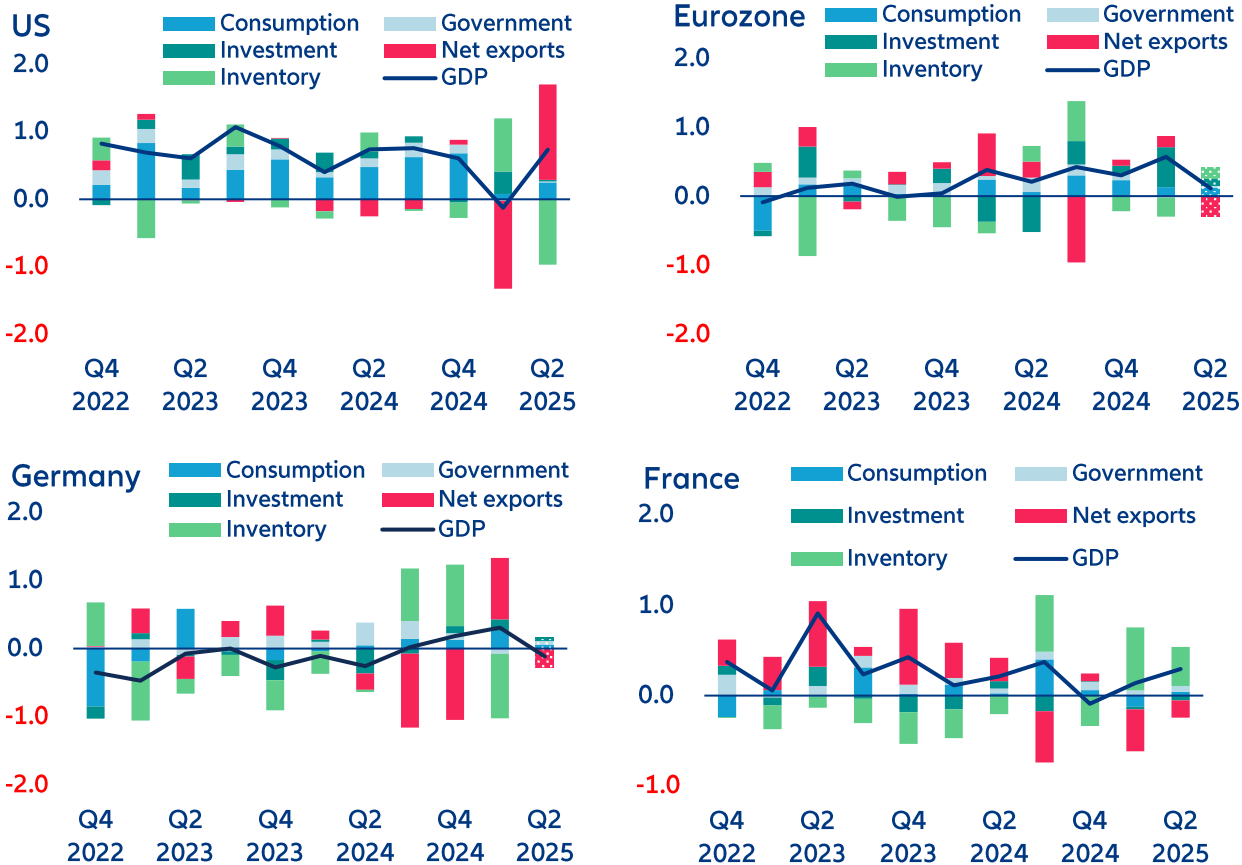
**French GDP nudged up +0.3% in Q2 2025, supported by inventories (+0.5pp), while internal demand was lackluster (+0.0) and net trade contributed negatively (-0.2pp).** The outturn was a touch higher than we expected (+0.2%), with inventory building surprising on the upside. Household consumption barely grew over the quarter (+0.1%) after a steep fall in the previous quarter (-0.3%). French households were still holding back on goods consumption despite a small warm-weather boost on food purchases over the quarter, while services consumption continued to fare better. Business investment continued to be the weakest spot, with another fall in Q2 across most categories, likely hit by political uncertainty and business tax hikes. However, household investment remained in recovery mode, recording the third consecutive quarter of growth (+0.4%) and confirming the end of the downturn in the residential market. Public consumption grew steadily at +0.2% (same pace as in Q1), indicating the absence of noticeable fiscal consolidation measures. Finally, exports managed to nudge up a modest +0.2%, but this followed a steep fall in Q1 (-1.1%). Only a handful of products supported shipments (chemicals & pharmaceuticals). In all, underlying growth remains very soft, held back by very weak domestic and external demand. Services production and consumption are still the main drivers of growth. At the beginning of the current quarter (Q3 2025), consumer and business surveys point to persistent softness in growth. We are for now still forecasting +0.1% growth (unchanged from our June economic outlook).

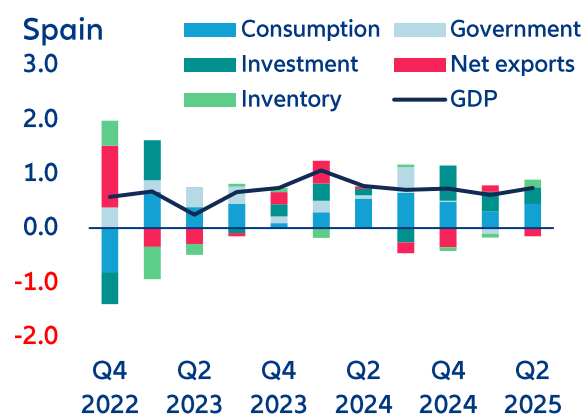
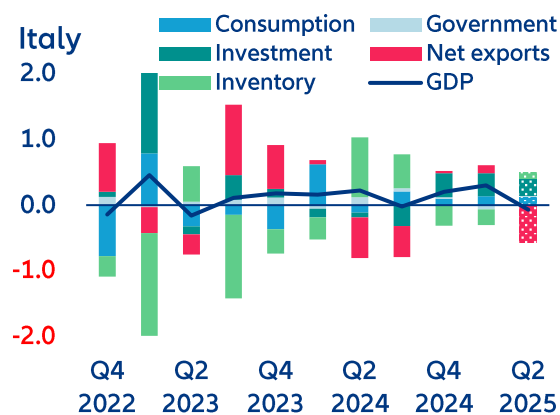
**Italy's economy contracted in Q2, falling short of both our expectations (+0.1%) and the consensus forecast (+0.2%).** According to the preliminary estimate (-0.1% q/q), the domestic component contributed positively to growth, while net trade was a drag on overall activity. Separate trade data over the same quarter showed that exports to non-EU countries, which represent 50% of the total merchandise exports, declined by -4.3% q/q, reverting the tariff frontloading effect observed in Q1. Meanwhile, non-EU imports, accounting for 42% of total imports,

increased sharply by +10.0% quarter-on-quarter. Exports will start to grow again only next year and at a slow pace due to the further loss of competitiveness caused by the appreciation of the exchange rate. Despite the external drag, domestic demand is expected to remain resilient. Consumption is set to continue expanding, supported by favorable trends in household purchasing power and lower interest rates. While investment is likely to be held back by heightened uncertainty, it will benefit from the implementation of NGEU-funded projects and the gradual decline in financing costs. That said, with a carryover growth of 0.5% for 2025, our annual GDP forecast of 0.6% may seem somewhat optimistic at this point. However, a timid rebound to 0.8% growth the following year is still plausible.

**Spain’s growth engine continues to power ahead.** The preliminary estimate for Spain’s Q2 GDP points to solid economic growth of +0.7% q/q. Despite recent downward revisions to the previous three quarters, private consumption and investment remained strong, expanding by +0.8% and +1.6% q/q, respectively. With the NGEU deadline approaching, we anticipate that investment will continue to be a primary growth driver in 2025 as the peak impact of EU funding materializes. Exports and imports of goods and services also rose, by +1.1% and +1.7%, respectively. On the supply side, all major sectors posted positive value-added growth, except the primary sector, which contracted sharply (-9.5% q/q, down from +8.3% in the previous quarter). The Q2 figures introduce upside risks to our current 2025 GDP growth forecast of +2.2%, despite ongoing global trade disruptions. The Spanish economy is expected to continue outperforming its Eurozone peers, supported by recovering domestic demand, ongoing NGEU-related investment and relatively lower exposure to global trade shocks.

Figure 2: GDP contributions, non-annualized (EZ, DE, IT contributions for Q2 are Allianz Research estimates), %

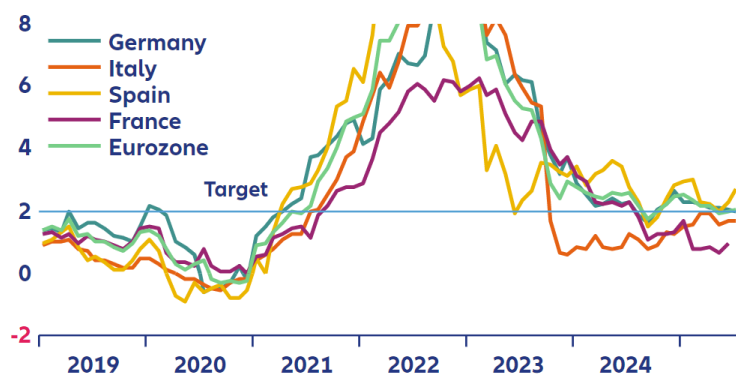




Sources: LSEG Datastream, Allianz Research

Meanwhile Eurozone inflation surprised slightly on the upside in July with inflation staying put at 2.0% y/y with food (3.3%) and services inflation (3.1%) remaining the biggest driver while energy prices deflated further (-2.5%). Core inflation remained at 2.3% y/y. Overall this is slightly above market and our expectations. German inflation held steady at 2.0% y/y in July, with core at 2.7%. Services inflation eased to 3.1%, while goods inflation rose to 1.0%. The energy component remained a drag (-3.4%), while food inflation picked up to 2.2%. French inflation also stayed put but at a lower 1.0% with similar drivers. Goods deflation remained at -0.2% y/y and services inflation edged up to 2.5%. Italy's inflation was stable at 1.7% y/y, with higher prices in food and transport services offset by further energy disinflation. Spain's inflation surprised on the upside at 2.7% y/y from 2.3% earlier, maintaining the highest inflation rate among the four largest Eurozone economies, consistent with its ongoing economic outperformance.

Figure 3: Headline Inflation, CPI y/y in %



Sources: LSEG Datastream, Allianz Research

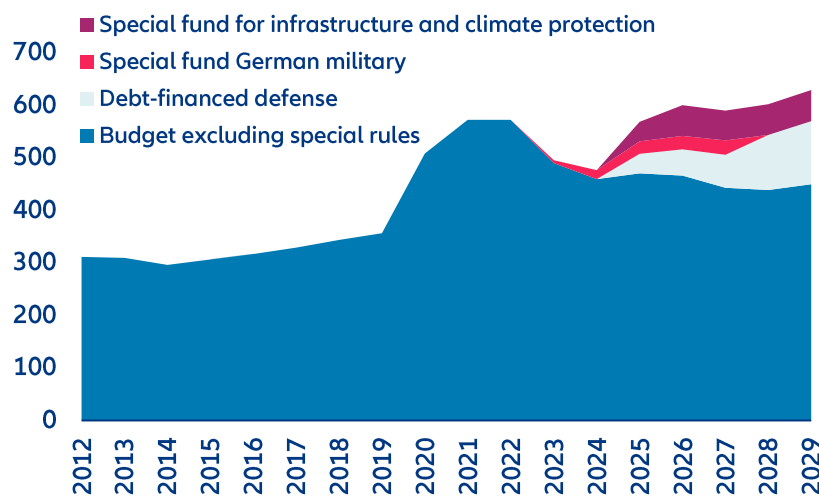
Our outlook for two more ECB rate cuts this year looks increasingly challenging following a hawkish ECB meeting and a trade deal that eased economic uncertainty. The ECB left rates on hold last week, as expected, but President Lagarde struck a hawkish tone, stressing that inflation will only temporarily undershoot the 2% target in coming quarters and downplaying concerns about euro strength. Overall, the bar to resume rate cuts after this pause has risen, introducing upside risk to our current forecast of two additional cuts this year.

## Germany's budget equation lacks some (fiscal) terms to be soluble

The 2026 budget highlights the German government's focus on defense, infrastructure and climate investment, with public investment rising to EUR127bn and defense spending to EUR82bn. Core budget expenditures are planned at EUR520.5bn for 2026, up from EUR503bn this year, and are projected to reach EUR572.1bn by 2029. Net borrowing is expected to increase to EUR89.9bn in 2026, compared to EUR81.8bn. By the end of the legislative

period, accumulated net borrowing is projected to approach EUR807bn. Much of this financing comes from special funds, easing pressure on the core budget but not addressing underlying fiscal constraints. Despite higher spending, the core budget faces cuts, with federal spending (excluding special funds) declining from EUR471bn in 2025 to EUR450bn in 2029 (Figure 4), a reduction not seen since the 1990s and contrasting with the current coalition agreement. Budget gaps are expected to widen from EUR22bn in 2027 to EUR56bn in 2028 and EUR66bn in 2029, roughly equivalent to the entire 2025 defense budget. So far, austerity pressures remain limited, except in development aid. Some fiscal “magic” is evident, such as a EUR5bn drop in projected interest payments due to accounting changes. However, rising pension and social spending, partly due to underestimated Citizens Income amid expected unemployment increases, suggest growing fiscal strain. Without major reforms or fiscal innovation, closing these gaps appears unlikely.

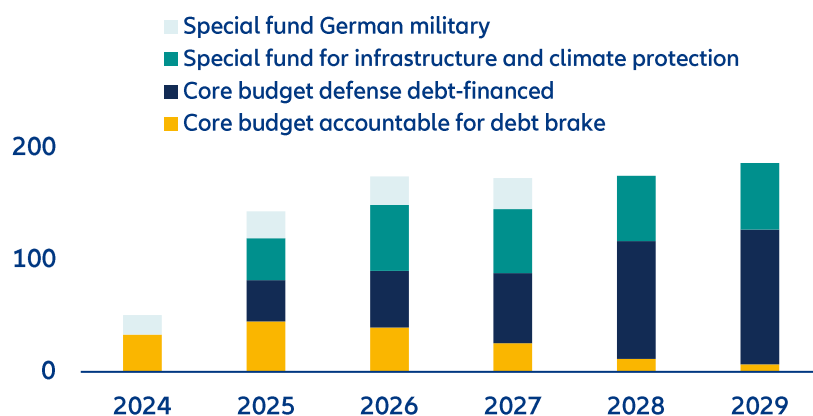
Figure 4: Federal spending without special rules, in EURbn



Sources: Bundesministerium der Finanzen, Allianz Research

**Debt is shifted outside of the core budget.** Borrowing is projected to rise sharply from EUR33bn in 2024 to EUR127bn by 2029, largely driven by debt-financed defense spending linked to the >1% of GDP rule. In addition to net borrowing of EUR90bn in 2026 within the core budget, an additional EUR83bn in special debt is expected, effectively shifting debt outside the core budget. While borrowing within the core budget is declining, much of the new debt accumulates through special funds (Figure 5). This combination of massive debt alongside ever-growing budget deficits, even amid record tax revenues, is a very problematic mix that threatens fiscal sustainability.

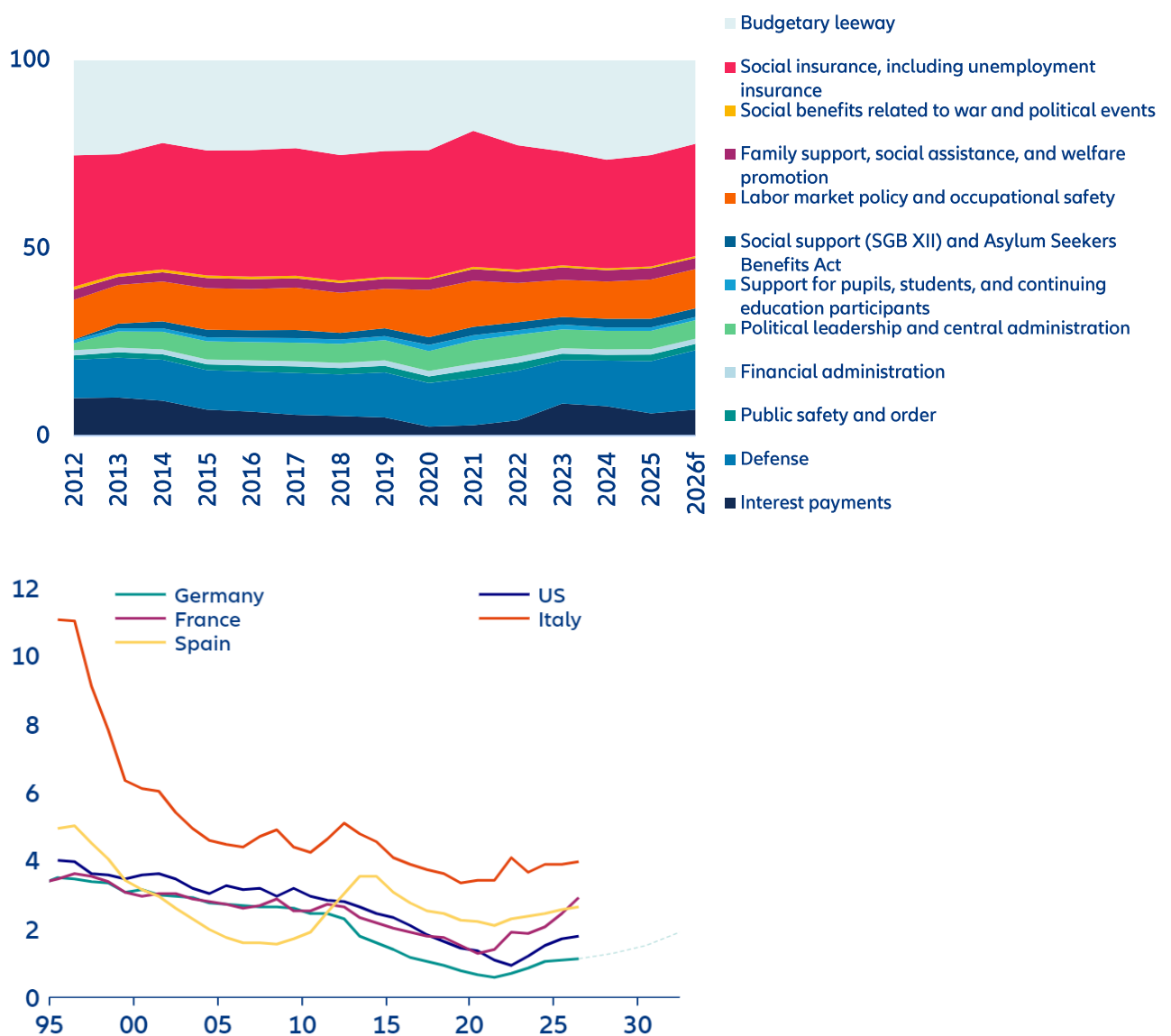
Figure 5: Debt-financed spending outside of the core budget, in EURbn



Sources: Bundesministerium der Finanzen, Allianz Research

**Germany's federal budget flexibility declines.** Discretionary spending has shrunk to just 25% of the core budget in 2025, largely due to fixed costs like social benefits, administration, defense and interest payments (Figure 6, top). Flexibility will further decline to 22% in 2026, driven by rising defense spending, interest costs and social expenditures to stabilize the labor market. Looking ahead, this share may decline to below 5% by 2035, as both interest and social spending continue to increase. Interest payments alone are projected to double, rising from EUR30bn in 2025 to between EUR60bn and EUR70bn by 2029. This would see interest costs grow from around 1.1% of GDP today to approximately 1.9% by 2032. Nonetheless, these levels remain relatively low compared to peer countries (Figure 6, bottom). Although special funds enable borrowing beyond the debt brake, they increase interest burdens on the core budget. Social subsidies during economic downturns further restrict fiscal space. As budget flexibility erodes, Germany is likely to increasingly rely on new special funds to cover short-term needs. This highlights a deeper structural problem that requires comprehensive strategic reform, not just spending cuts, to ensure long-term budget sustainability.

Figure 6: Discretionary versus committed expenditures in the federal budget, in % (top) and interest payments, in % of GDP (bottom)

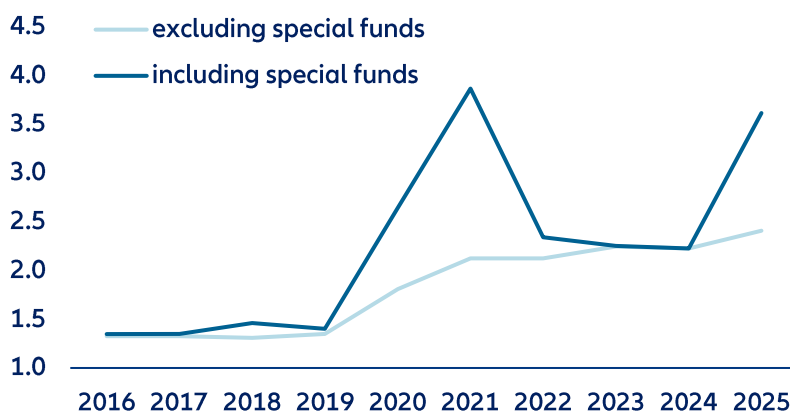


Sources: Bundesministerium der Finanzen, LSEG Datastream, Allianz Research. Notes: Excluding emergency credits and defense spending over 1% of GDP, discretionary spending is defined per Streeck and Mertens (2010) as expenditures reversible within a year.



**Much of the investment push relies on temporary special funds, raising concerns about sustainability.** Outside these, future-oriented spending (education, infrastructure, innovation, digitalization, climate action) remains at just 2.4% of GDP in 2025 (Figure 7). Including special funds lifts this to 3.6%, but long-term growth requires stable core-budget financing. As a share of the core budget, future-oriented investments make up 17.9% (up +0.3pps from 2024), or 21% when including special funds, a +3.5pps increase. Only 0.13% of GDP, or 1.1% of the federal budget, is allocated to future-oriented spending within committed expenditures, covering areas like educational support and defense-related R&D. The majority of such spending depends on budgetary flexibility and special funds. This reliance on special funds is already visible: while one-third of future-focused expenditures are financed through special funds in the 2025 budget, this share rises to 56% in 2026 and reaches two-thirds by 2029. As a result, investments crucial for driving future growth become vulnerable to cuts under growing pressure on the core budget. Relying heavily on temporary funding risks jeopardizing essential long-term investments once this funding expires.

Figure 7: Future-oriented investments, in % of GDP



Sources: Bundesministerium für Finanzen, Allianz Research. Note: Peak in 2021 due to the setup of the Climate and Transformation Fund and respective transfers.

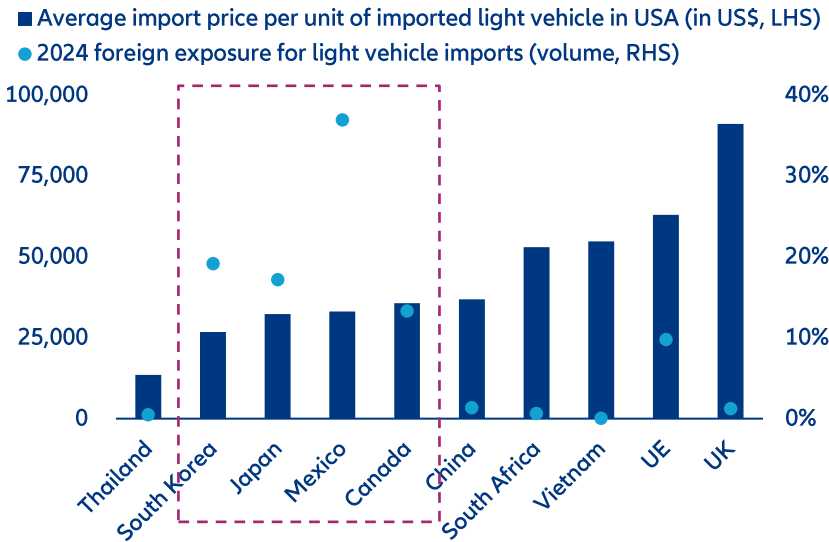
**A strategic budget reset paired with structural reforms is crucial for Germany.** The budget faces familiar challenges: discretionary spending is shrinking while rising social subsidies and interest costs threaten future-oriented investments. A budget review must reverse this trend and boost labor force participation. Early retirement and high labor taxes discourage work and strain finances; therefore, modernizing pensions and healthcare to reduce long-term liabilities, shifting taxes away from labor to encourage employment and improving care infrastructure are essential to achieve significant savings. Sustainable public finances depend on mobilizing labor, attracting private investment and prioritizing long-term spending. Structural reforms must precede any fiscal reset to secure Germany's economic growth and fiscal stability.

## Could tariffs prevent car makers from reshoring?

**Higher tariffs on European and Japanese carmakers could be a Pyrrhic victory for the US.** After months of trade talks, and just ahead of the 1 August deadline, European and Japanese officials reached a trade agreement with the US administration. The result is a lower reciprocal rate than initially feared, including at this stage no specific tariff premium for the automobile industry. The effective rate on imported vehicles and parts from Europe and Japan will be hiked to 15% against 2.5% last year, but this is far better than the 27.5% rate that would have applied without a deal. In fact, the deal puts European and Japanese carmakers on a better footing than their competition in Mexico and Canada, which face a 25% tariff. This means that a car imported from Japan is now cheaper than a Mexico- or Canada-made model. Even cars from South Korea, which just signed a deal with the US that puts its tariff rate at 15% as well, would be cheaper. This is a blow to US carmakers whose supply chains are strongly dependent on Mexico, and to a lesser extent on Canada (Figure 8), and which have a higher ratio of US-origin parts in the final composition of vehicles sold on the US market compared to their peers (39% exposure in H1 2025 against respectively 32%, 18% and 11% for Japanese, South Korean and European manufacturers, as seen in Figure 9).

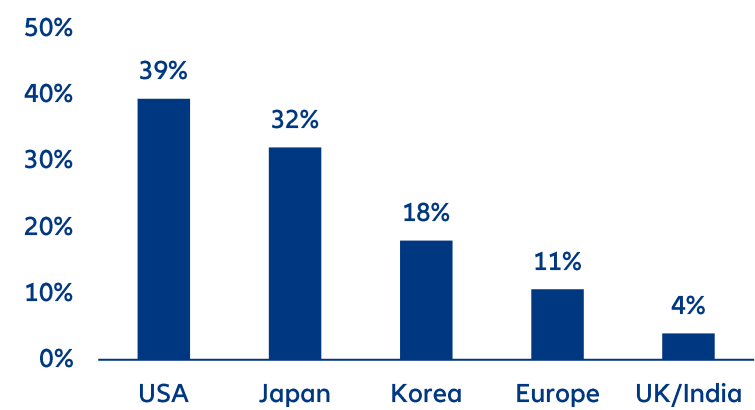
Moreover, the 50% tariff on imported steel and aluminum is an additional burden for local automakers, adding to the long list of headwinds that are hitting profit margins.

Figure 8: Average unit price of an imported light vehicle in the US after application of new 2025 US tariff rates and external exposure per country breakdown, based on annual 2024 US import volume/value



\*Average price per unit for South Korea integrate most recent 15% tariff proposal.  
Sources: US International Trade Administration (ITA), Allianz Research

Figure 9: Ratio of US composition in cars sold in the US in H1 2025, per automobile manufacturer by country

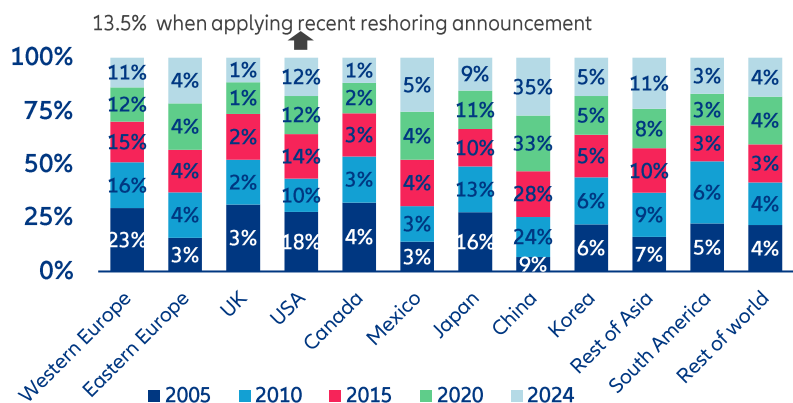


Sources: National Highway Traffic Safety Administration (part 583 American Automobile Labeling Act Reports, 2025 update), Allianz Research

**Could this spark a reshoring of auto manufacturing to the US?** Automotive manufacturing played a critical role in the expansion of the US economy over the 20<sup>th</sup> century until globalization sparked the outsourcing of assembling plants abroad – notably to Mexico in the case of US – and China quickly took over as the world’s manufacturing hub. However, since 2005, Europe and Japan’s automotive industry have faced much larger declines in market share of production (8-12% and 5-7%, respectively), while the US’s has fallen by just 4-6% (Figure 10), the result of factors like the size of the market, its very diversified geography and also historical strong ties between business and political spaces, which has ensured support during crisis times. Nevertheless, the industry has been in focus amid the new administration’s emphasis on rebuilding the manufacturing industry in the US. Initially the prospect of rising import costs was supposed to trigger a vast reshoring momentum from both manufacturers and suppliers doing business in America. However, this does not seem to have become an overarching trend. Based on official announcements made so far this year, we find a 1.35mn potential increase of vehicle production capacities, which

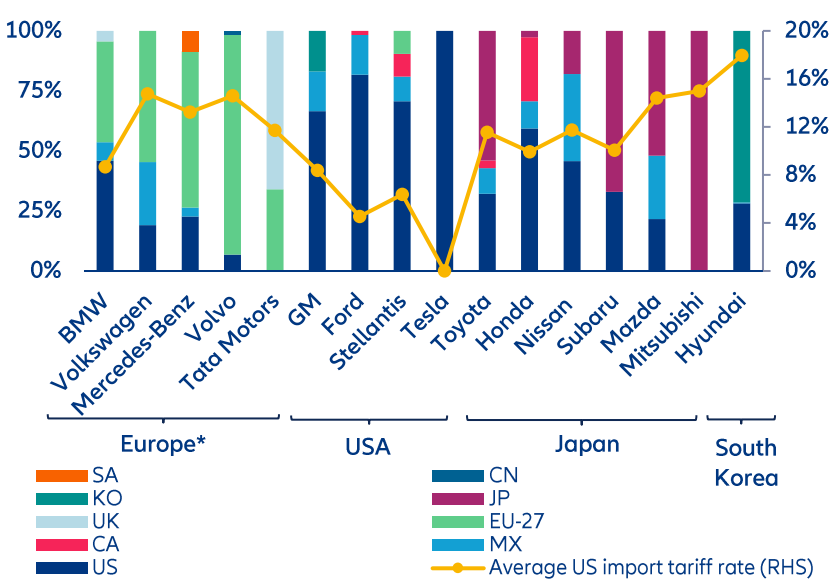
would increase domestic production capacities by +9% and – all things being equal – raise the US manufacturing footprint in global automobile production by around +1.5% to 13.5%. This is noticeable but not really significant, especially if since such an increase is unlikely to materialize as US plants are currently running at two-thirds of their capacities and are not expected to increase the pace in the short-run. Domestic demand is likely to falter under a less favorable electric vehicle subsidy scheme and higher prices of new cars due to tariffs. Further clarity on the future of tariffs may trigger more announcements of reshoring to the US but we do not expect this to become an established trend. Our calculations, based on the current car assembling network and the distribution of light vehicles sold in the US in the first half of 2025, put the average tariff rate for Japanese, European and South Korean manufacturers at 12%, 13% and 18% against 5% for US manufacturers (6% if we exclude Tesla, see figure 11). That additional cost remains manageable and would not justify a substantial increase in production capacities in US.

Figure 10: Historical evolution of market share of global production of light passenger vehicles, per country of assembly



Sources: Wards, Allianz Research

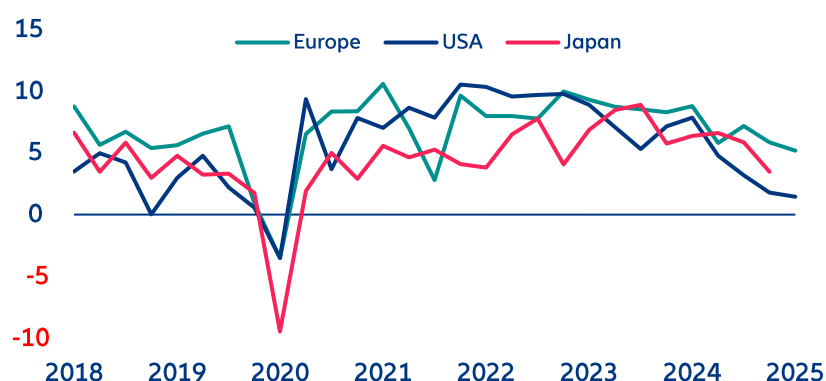
Figure 11: Geographic origins of light vehicle sold in USA in H1 2025 based on final assembling location, categorized per automobile manufacturer breakdown



\*We affiliate Tata Motors group to Europe as its two most famous brands sold in USA have UK origins (Jaguar/Land Rover).  
Sources: National Highway Traffic Safety Administration (part 583 American Automobile Labeling Act Reports, 2025 update), Allianz Research

**Automakers have bigger problems to worry about.** Preliminary earnings for the first half of the year show that the tariff-related impacts are modest so far, though some manufacturers already added tariff-related charges to their balance sheets in Q2 (eg. GM reported an over USD1bn loss due to tariffs in Q2). Both domestic and foreigner manufacturers broadly dipped into their inventories to minimize tariff effects and even used discounts to boost sales. But this short-term strategy will not contain the downward pressure on profits forever. For most companies, the impacts are expected to be fully felt in the second half of the year, once reciprocal and other sector-specific tariffs will come into effect. Ultimately tariffs are just one of the many challenges looming over the automotive industry, including decreasing demand in developed economies<sup>2</sup>, higher competition from Chinese brands, a tightening of the fiscal framework for electric vehicles in Europe and the US, more stringent carbon regulation in Europe and, for some specific cases, underperforming investments and unsteady governance. All these factors are contributing to the margin squeeze amid manufacturers and suppliers. After double-digit margins in 2022-2023, supported by inflationary effects, the auto industry is likely to see low-to-mid single digit margins this year (Figure 12). Some companies already reported a multi-billion income contraction in the first half of the year (i.e. Stellantis). Against this backdrop, companies are focused on short-term profitability and cash-flow generation, and as a result are less inclined to splurge their capital on long-term investments like reshoring. This means that capex policy is totally frozen as tense competition forces manufacturers and suppliers to invest in new technology and/or platforms to secure their market share, but the industry will scrutinize further its costs and monitor closely the return on investment. The recent announcements from Stellantis (a European and American company) are emblematic of this trend: The company said it will stop its hydrogen investments while increasing production capacities in its Moroccan plant, which will become its largest manufacturing hub worldwide.

Figure 12: EBIT margin of main automobile manufacturers, per nationality breakdown, %



Sources: LSEG Datastream, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

#### **FORWARD-LOOKING STATEMENTS**

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

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