

Eurozone economy

Eurozone growth threatened by global trade war, economists warn

Financial Times poll points to gloomy outlook with little upside potential for common currency area



US president-elect Donald Trump has vowed to impose levies of up to 20% on all US imports © FT montage; Getty Images

Olaf Storbeck in Frankfurt 4 HOURS AGO

A possible global trade war and regional political paralysis are the two biggest threats facing the Eurozone economy in 2025, according to a Financial Times poll of 72 economists.

US president-elect Donald Trump has pledged to impose levies of up to 20 per cent on all US imports, with the tariffs rising to 60 per cent on China, once he returns to the White House on January 20.

If Trump is true to his word, the tariffs would represent the most significant rise in US protectionism since the era of the Great Depression and raise the prospect of retaliation elsewhere.

The Eurozone, which holds a large trade surplus with the US, is seen as acutely exposed to not only higher tariffs but also the threat of China dumping cheap products on global markets in response to Trump's actions.

“Trump's second presidency is now the single biggest political and economic risk,” said Mujtaba Rahman, managing director for Europe at analysts Eurasia Group. “Europe will be exposed to tariffs and a push by Trump to force more aggressive decoupling from China.”

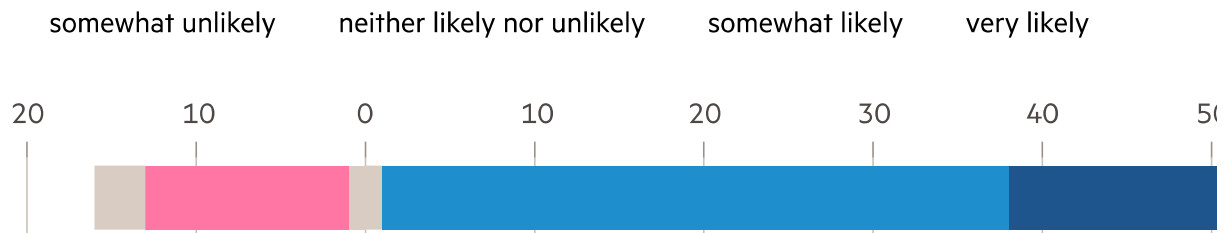
A [trade conflict](#) triggered by tariffs imposed by the US is almost taken as a given by economists polled by the FT: 69 per cent of respondents consider it likely, while 68 per cent warn that such a scenario is the biggest threat for the region next year.

Almost all of the respondents — 81 per cent — said a second Trump term will weigh on Eurozone growth.

A large majority of economists says a US-Eurozone trade war is likely in 2025

Number of respondents

Q: “How likely is it in your view that we will see an escalating trade war with punitive tariffs between the US and the Eurozone in 2025?”



Source: FT research

FINANCIAL TIMES

The fallout of Trump’s trade policies is likely to dent output in Europe even before they have been put in place, economists say. “The expectations of Trump tariffs . . . provide companies with a strong incentive to wait with investments until some of the uncertainty is resolved,” said Tomasz Wieladek of T Rowe Price.

On average, the 72 respondents expect the [Eurozone economy](#) to expand by just 0.9 per cent. This would be the third year of subpar growth in a row and is below the 1.1 per cent that the European Central Bank’s staff predicted in December.

But there is broad consensus that the single currency area can avoid a recession. John Llewellyn, a former senior economist at the OECD and Lehman Brothers who is now a partner at Independent Economics, is the biggest outlier.

Predicting the Eurozone economy would end next year 1 per cent smaller than at the start, Llewellyn said “investors at present are unwarrantedly complacent about what President Trump is likely to bring”.

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Economic stability is far more fragile than the modern generation recognises, he said.

Most of the polled economists — 61 per cent — back ECB president Christine Lagarde’s call to EU policymakers to engage in trade negotiations with Trump to avoid an all-out trade war.

“[The EU] may want to use the threat of retaliation as part of the negotiation. But ultimately, tariffs are a self-inflicted harm, and the EU would be better off not using them,” said Isabelle Mateos y Lago, chief economist at BNP Paribas.

Several economists point to the EU’s vast experience in trade talks and its position as one of the world’s biggest trading blocks. “The EU is far from in a weak position,” said Christian Dustmann, director of Berlin-based economic think-tank Rockwool Foundation.

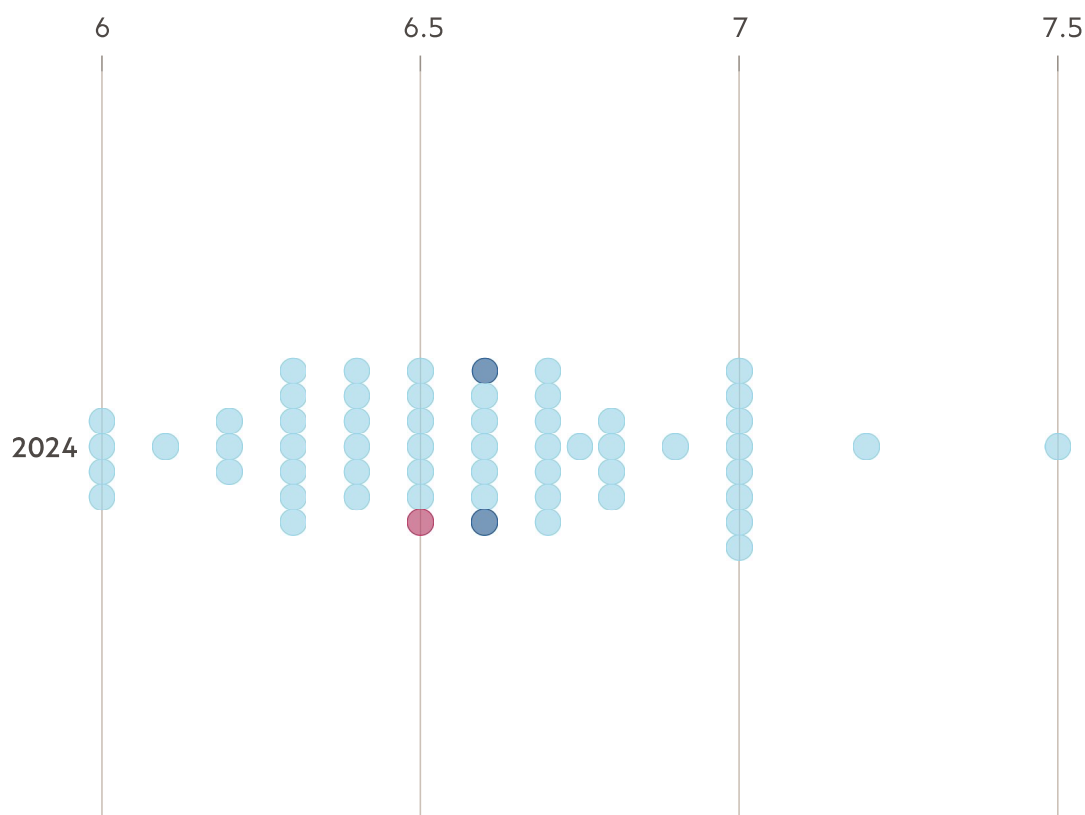
Economists’ Eurozone expectations in FT year-end survey

Economists’ expectations for Eurozone unemployment, interest rates, inflation and growth (%):

Unemployment ▼

Survey respondent Survey average ECB

Unemployment, year-end



Source: FT research

FINANCIAL TIMES

However, a vocal minority warned that seeking a trade deal with the US would only encourage more aggressive action. “Trump has the mentality of a playground bully,” said Kamil Kovar, senior economist at Moody’s.

Carsten Brzeski, global head of macro at ING Bank, said tariffs were not the only threat to the European economy stemming from the US in 2024. “US tax cuts, deregulation and lower energy prices will also make the US economy more attractive compared with the Eurozone.”

Next to geopolitical risks, Europe’s inability to fix its homemade problems is seen as a key risk by close to a third of all polled.

Ulrich Kater, chief economist at Germany’s Deka Bank, said Europe was soon going to resemble the “late Habsburg empire”. It was falling behind economically and technologically, bogged down by bureaucracy and dominated by “melancholic remembrance of its former greatness”.

Asked about potential reasons for optimism, one in five referred to declining interest rates and some hope of an uptick in consumer demand.

A similar share of analysts believe Germany’s snap elections in February might lead to tweaks in the country’s tight constitutional debt brake and increase investment.

“The psychological depression in Germany could be turned around if a new coalition would be able to present a coherent reform programme and lift the debt brake,” said Moritz Kraemer of German lender LBBW.

However, Marcel Fratzscher, director of Berlin-based economic think-tank DIW, was less optimistic. “Don’t expect a new German government to hit the ground running and provide a much-needed boost to confidence,” he said.



Most economists think a Euro area recession in 2025 is unlikely

Number of respondents

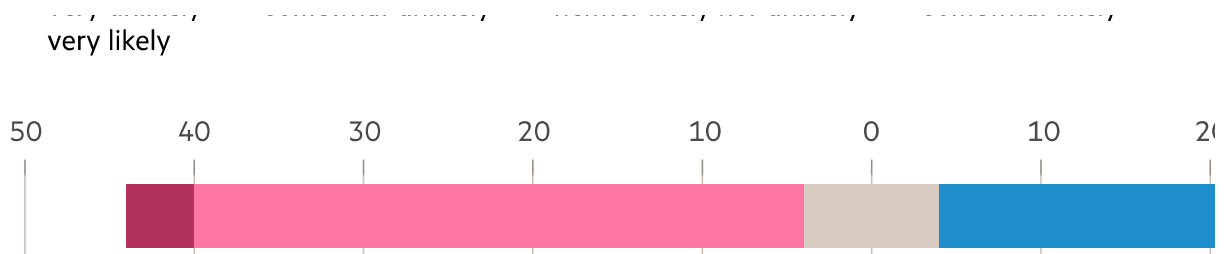
Q: "How likely do you think is it that the Eurozone will enter a recession in the course of 2025?"

very unlikely

somewhat unlikely

neither likely nor unlikely

somewhat likely



While the centre-right Christian Democratic Union is poised to be the strongest party, coalition negotiations might be complex and can drag on for months. Moreover, CDU party boss and lead candidate Friedrich Merz has so far only shown a limited appetite for changes to the debt brake.

Paradoxically, a fifth of all economists hope the gloom could become a blessing in disguise as the situation might become so bad that Europe might eventually embark on necessary reforms.

“A hostile international political climate presents an opportunity for European governance,” said Lena Komileva, chief economist at (g+)economics consultancy.

LBBW’s Kraemer stressed that expectations were “now so low all around that there is also some potential for upside surprises”.

Additional reporting by Alexander Vladkov in Frankfurt

Data visualisation by Martin Stabe

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