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ISSUER COMMENT
20 February 2019

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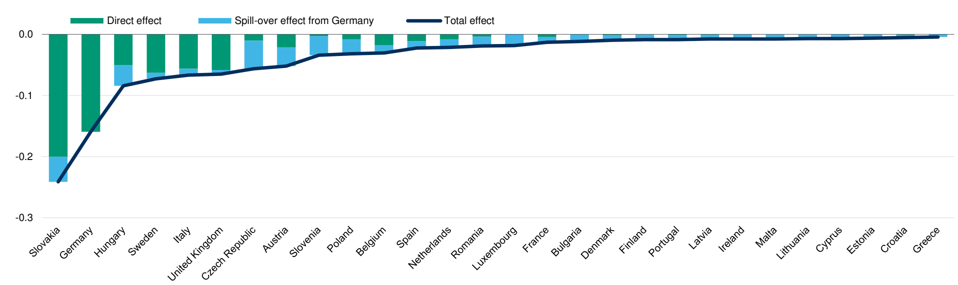
Government of Germany

Germany's growth would slow if proposed US auto tariff increase is implemented

On 17 February, the US Department of Commerce sent the White House a "section 232" report on the national security effect of car imports, which includes vehicles and car parts. According to media reports, the Commerce Department report includes a proposal to raise the tariffs on car imports to 20%-25% from 2.5% currently. US President Donald Trump has 90 days (i.e., until 18 May 2019) to make a decision about implementing the proposed tariff increase.

The additional tariffs would be credit negative for Germany (Aaa stable) because we estimate they would slow economic growth by 0.2 percentage point annually[1], lowering our current GDP growth forecasts of 1.5% for 2019 and 1.3% for 2020 (see exhibit).

Germany's economy would be one of the most affected in Europe from US tariffs on vehicles and car parts
German GDP percentage-point loss versus our baseline GDP forecast



Sources: UN Comtrade, Organisation for Economic Co-operation and Development and Moody's Investors Service

Germany is among the European economies most exposed to US auto tariffs, second to Slovakia (A2 positive). Germany is the world's largest car exporter at $220 billion (including vehicles and car parts), or 20% of global car exports. Moreover, the largest share of Germany's car exports go to the US (Aaa stable), which took 13% in 2017, followed by the UK (Aa2 stable) with 11.7% and China (A1 stable) with 10.6%.

The car sector is crucial for the German economy: it accounts for 4.9% of gross value added, 18% of the country's total exports and almost half of the country's goods trade surplus. The automobile sector directly employed 869,000 people in 2017 (up 1.8% from 2016), and we estimate that it indirectly employed 1.4 million people producing intermediate goods. Productivity growth is also very strong in the automobile sector, averaging 5.0% between 2012 and 2016, compared with 2.4% for Germany's manufacturing sector as a whole.

The proposed 20%-25% tariffs are well above the European Union's car tariffs of 10%. Our estimate of a 0.2-percentage-point growth slowdown in Germany's 2019 and 2020 GDP balances two effects: lower car exports to the US because of the tariff-driven price increase, and lower intermediate goods imports since almost one-third of Germany's car exports are imported intermediate goods.

Germany's premium auto brands Bayerische Motoren Werke Aktiengesellschaft (BMW, A1 stable), Daimler AG's (A2 stable) Mercedes-Benz and Volkswagen Aktiengesellschaft's (A3 stable) Audi and Porsche may be relatively well positioned to pass on at least part of any potential tariff burden to their customers, since their sales are less price-sensitive than those of mass-market brands.

That said, the threat of further tariffs (and a potential escalation of trade tensions) risks dampening corporate investments beyond what we currently expect for 2019 and 2020. A weakening has already been indicated in recent corporate export and business expectations, particularly for the auto sector. We expect uncertainty regarding trade policies to weigh on sentiment indicators and eventually on corporate investments as companies increasingly adopt a wait-and-see stance.

Endnotes

1 See **Auto tariffs would dampen German growth somewhat, but have no material credit implications for the sovereign**, 30 July 2018 and **Auto tariffs would marginally dampen growth, credit implications are limited**, 3 September 2018.

REPORT NUMBER 1162482

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