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Research Report

Who's afraid of Trump in the White House? How German firms view the US election

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Who's Afraid of Trump in the White House? How German Firms View the US Election

Andreas Baur, Lisandra Flach, Sebastian Link and Andreas Peichl

Key Messages

- The US market plays a crucial role for German industry, with a significant portion of German manufacturing firms maintaining export, import, or production relationships with the US economy
- 44 percent of German manufacturing firms anticipate negative impacts on their business situation if Donald Trump wins the election, compared to a potential Kamala Harris presidency
- Firms expecting negative consequences from a Trump presidency tend to rate Harris' chances of winning more favorably
- On the eve of the US elections, only 4 percent of German manufacturing companies are currently planning concrete adjustment measures for a potential second Trump presidency



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Who's Afraid of Trump in the White House? How German Firms View the US Election

*Andreas Baur, Lisandra Flach, Sebastian Link and Andreas Peichl**

ifo Institute, Munich, Oktober 2024

As the US presidential election on November 5, 2024, approaches, current polls show a neck-and-neck race between Democratic Vice President Kamala Harris and Republican former President Donald Trump. In particular, Trump's possible return to the White House could lead to significant disruptions in German-US economic relations. According to calculations by the ifo Institute, Trump's election promise to impose a 20 percent tariff on all US imports (and 60 percent tariffs on Chinese imports) would cause German exports to the US to fall by almost 15 percent (Baur et al. 2024). This estimate doesn't account for potential retaliatory tariffs or the broader implications for the global rules-based trading system. At the same time, however, Trump also wants to lure companies around the world to the US with the promise of generous corporate tax cuts. At an election campaign event, he announced that he wanted "German car companies to become American car companies" through tax breaks, low energy costs, and reduced bureaucracy.

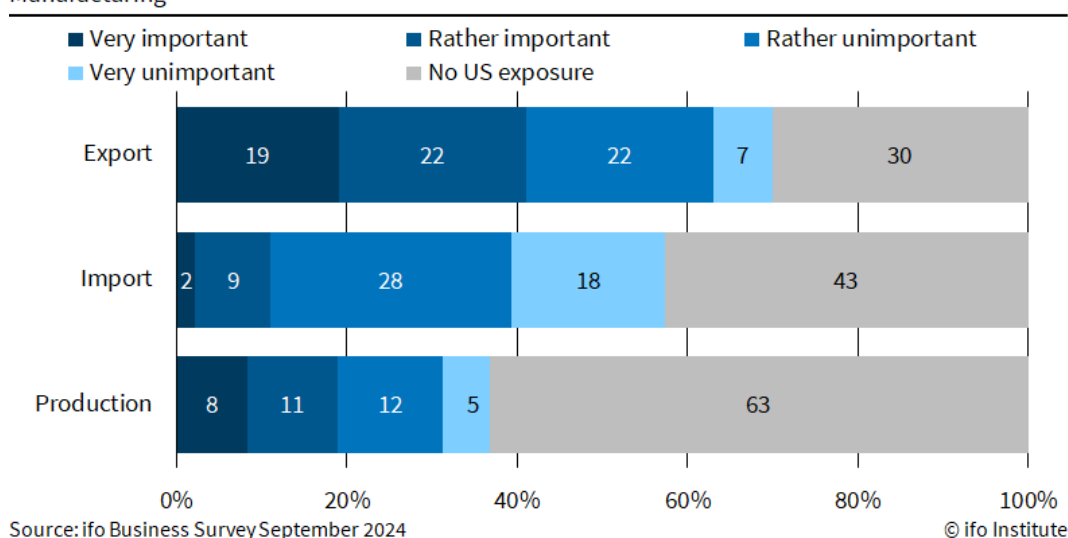
In this complex and highly uncertain landscape, how do German firms view the upcoming US election and a possible second Donald Trump presidency? As part of the ifo Business Survey in September 2024, more than 2,000 German manufacturing firms were asked about the US election. The survey gauged not only the current importance of the US market from a business perspective but also the anticipated effects of a possible second Trump presidency on the companies' business development and planned company responses should he win. In this article, we present the results of this survey and shed light on how German firms view the US election.

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The US Market Plays an Important Role for German Industry

At the macroeconomic level, the United States was the largest purchaser of German exports last year and the third most important supplier of German imports (see Baur et al. 2024). This is also reflected in the results of the ifo Business Survey, where the great importance of the US as a sales market for German industry is particularly striking. Around 40 percent of all the companies surveyed stated that the United States plays an important or even very important role as an export destination for their business. Compared to its importance as a sales market, imports from the US are often less significant for German manufacturing firms: Only 11 percent of firms classify the United States as an important import partner. In addition, the US plays a rather important or even very important role as a production location for one in five of the companies surveyed. Among large enterprises with more than 250 employees, this share is even close to 50 percent.

Figure 1:
Importance of the US from a Business Perspective
Manufacturing

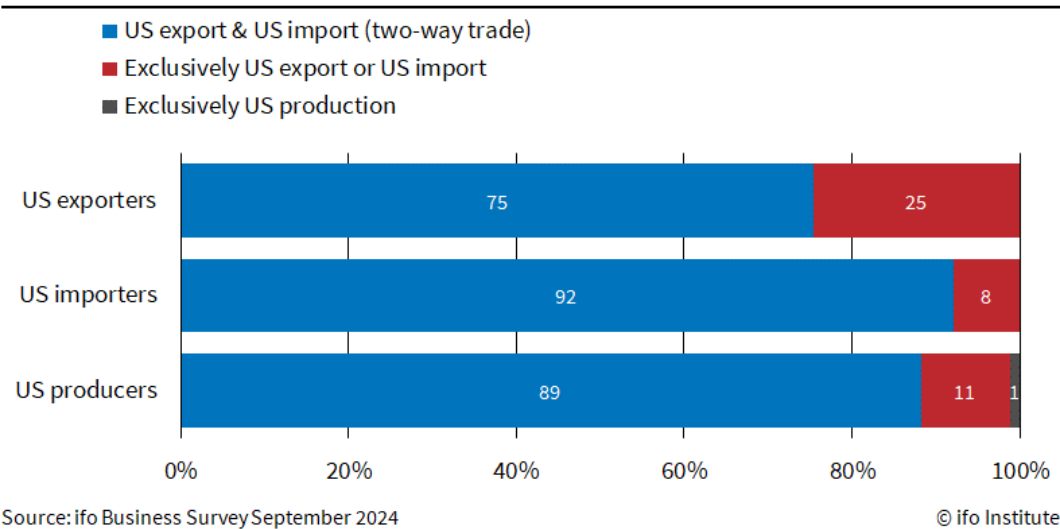


In this context, it is important to emphasize that exports, imports, and foreign production cannot generally be looked at as separate business areas. In many cases, these different international activities go hand in hand for firms, especially for large enterprises (see Bernard et al. 2018). According to the survey results, this is also the case for German trade with the US, with the majority of German companies that export to the US also importing from the US (see Fig. 2). By contrast, German firms that have economic ties with the United States exclusively through exports are in a clear minority in the group

of German US exporters with a share of 25 percent. A similar picture emerges for German US importers: Around 92 percent simultaneously export to the US, and many also produce there. Conversely, only 8 percent are exclusively US importers without any export relations with the US. In the group of German firms with US production facilities, which primarily consists of large German enterprises, it can virtually be ruled out that no other foreign trade relations exist. Here too, firms that both export to and import from the US dominate.

This intertwining of export, import, and foreign production indicates that complex transatlantic value chains have emerged in recent decades which can be easily disrupted by tariffs and other trade barriers. The effects of possible new protectionist policy measures under a second Trump administration are therefore not trivial, as they could significantly influence not only the export behavior of German companies, but in many cases also their import and production decisions regarding the US (see Hawley et al. 2020, Blanchard 2019).

Figure 2:
US Ties of German Firms
Manufacturing



Expected Impact of a Second Trump Presidency

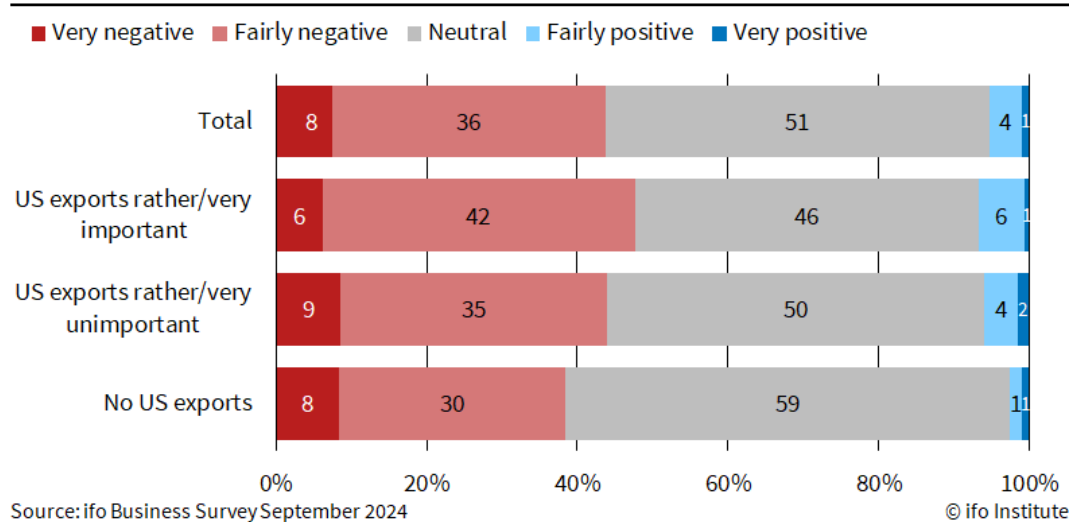
What impact on their business situation do German firms expect in the event of Donald Trump moving into the White House in January 2025 instead of Kamala Harris? From the perspective of around half of the surveyed firms, it makes no major difference whether Trump or Harris wins the upcoming US election (see Fig. 3). This group of firms expects neither positive nor negative effects on their business situation from a Trump

presidency compared to a Harris presidency. However, almost as many firms fear negative business consequences from Donald Trump being elected: Around 36 percent estimate that a second Trump presidency would have a rather negative impact on their business situation. 8 percent even expect very negative effects. In contrast, only 5 percent of the surveyed firms believe that Trump's election would have positive consequences for their business compared to Harris being elected.

Figure 3:

Impact of Donald Trump's Election on the Company's Business Situation

Compared to the election of Kamala Harris



The extent of direct foreign trade ties with the US economy influences to a certain degree how firms assess the impact of a second Trump presidency. Around 48 percent of firms that have established close export links with the US expect negative consequences for their own business situation if Trump wins the election. This share is around four percentage points above the industry average. The share of firms hoping for positive effects from another Trump presidency is also slightly above the overall average in this group at just under 7 percent, albeit still at a very low level. By contrast, with a share of around 59 percent, firms without any direct export ties with the US indicate much more frequently that they expect neither positive nor negative effects on their business situation from a Trump presidency as compared to a Harris presidency.

Nevertheless, it is striking that a comparatively large number of firms fear negative consequences of a second Trump presidency, even though they themselves maintain no direct export relations with the United States. The corresponding share is around 38 percent.¹ The difference compared to firms active in US foreign trade is therefore relatively small in this respect, which may be surprising at first glance. However, even if a

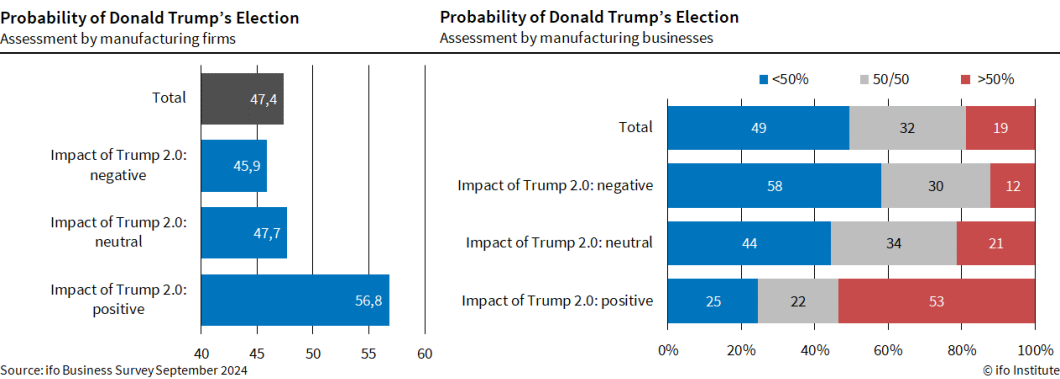
¹ For firms with no direct import relations or US production, this share is even as high as 41 percent.

company does not export to the US itself, it can still be indirectly dependent on US exports as a supplier to German US exporters. The same logic applies to firms that source inputs from German US importers, making them indirectly part of transatlantic value chains. Domestic production networks thus lead to foreign trade shocks being relevant not only for firms directly active in international trade but also affecting other firms and economic sectors (cf. Dhyne et al. 2021). The survey results indicate that firms are indeed aware of these indirect ties with the US market.

Most Firms Expect a Close Election Result

But how likely do German companies consider a second Trump presidency? Around a third of companies believe that chances that Harris and Trump have of winning the election are exactly the same, while around half of all companies surveyed believe that Harris’ chances of being elected are slightly higher (see Fig. 4). One in five German manufacturing firms, on the other hand, considers a Trump election victory more likely than a Harris victory. On average, surveyed manufacturing companies estimate Trump’s chances of winning the election at around 47 percent. This figure is very close to the forecasts of prediction models based on the latest polls, as in the weekly newspaper “The Economist” (45 percent probability of victory for Trump, as of October 15, 2024) or on the website “FiveThirtyEight” (46 percent probability of victory for Trump, as of October 10, 2024). Overall, German manufacturing firms expect a neck-and-neck race between Trump and Harris, aligning with the trend of current surveys.

Figure 4:



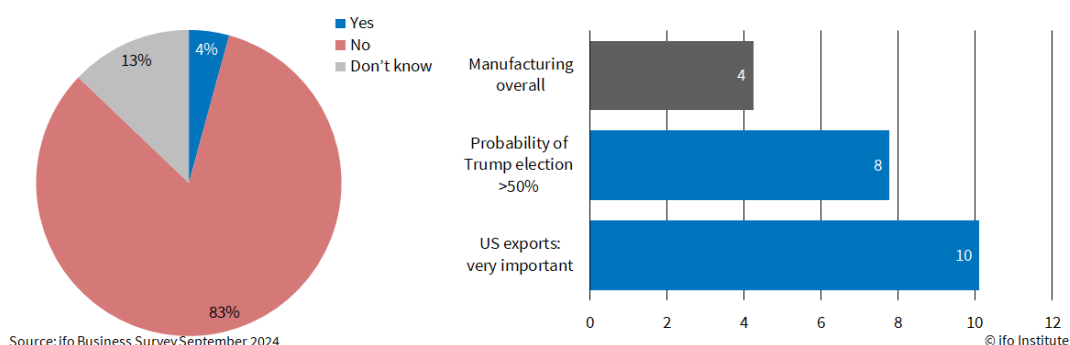
However, at the firm level, patterns of wishful thinking with regard to Trump’s election chances can indeed be recognized. Firms that anticipate negative consequences for their business situation from a possible Trump presidency rate the probability of a Trump election victory on average two percentage points lower than firms that believe it makes no major difference to their business development whether Trump or Harris

wins the upcoming US election. Moreover, almost 60 percent of firms expecting negative business impacts from a Trump presidency rate Harris' chances at over 50 percent, compared to only 44 percent of firms with neutral expectations. An opposite pattern can be seen among the few firms that expect positive effects on their business situation from a Trump victory: In this case, the positive expectations are generally accompanied by significantly higher estimates for Donald Trump's chances of winning. More than half of these firms see Trump's chances of winning the election at over 50 percent; on average, this group puts the probability of Trump's victory at 57 percent. Overall, firms' expectations about a second Trump presidency seem to influence to a certain degree their predictions of the election outcome, suggesting patterns of wishful thinking in both negative and positive expectations regarding a second Trump presidency.

Only a Few Firms are Planning Concrete Measures in the Event of Trump's Election

Figure 5:

Measures Planned in the Event of a Trump Election? Share of Companies Planning Adjustment Measures for Trump Election Manufacturing



The vast majority of German manufacturing firms believe that Trump's election victory is a realistic outcome of the US election this November. In the last part of the survey, firms were asked whether they are planning specific measures for this scenario. 83 percent of firms say no (see Fig. 5). Around 13 percent state that they don't know yet. Only 4 percent of the companies surveyed are planning concrete measures such as greater localization of production, relocation of production to the US, or diversification of procurement and sales markets in the event of Donald Trump's return to the White House. The share of firms planning specific measures increases both with the estimated probability of this scenario occurring and the degree of dependence on the US market, but it remains always limited to a minority. Among those firms that see the probability of a Trump election victory at over 50 percent, this share is 8 percent. In relative terms, the

share of firms planning specific measures is highest among those for which the US export market plays a very important role, but even in this group it is limited to just 10 percent.

Most manufacturing firms' lack of concrete adjustment plans for a Trump victory can be explained in several ways: First, several ifo surveys since the COVID-19 pandemic show that many firms are already proactively restructuring their supply chains and focusing in particular on greater diversification of suppliers (see Aksoy et al. 2024). It is therefore possible that some firms consider themselves already well prepared for a second Trump presidency. Second, many trade restrictions from Trump's first term continued or intensified under Biden. That is why, despite all the rhetoric, some firms may see primarily continuity in a change of government from Biden to Trump (especially in an increasingly protectionist US trade policy) and are therefore not planning any Trump-specific measures. That could apply in particular to firms that expect neither positive nor negative effects from a Trump presidency as compared to a Harris presidency. Third, many firms may prefer to wait and see how a possible Trump presidency would actually affect their business operations. In that respect, uncertainty about the actual impact of a second Trump presidency could prevent advanced planning. Finally, some firms may doubt their ability to mitigate the effects of a Trump presidency through internal measures, or, given Germany's current recession, may be focusing on more immediate challenges than potential US election outcomes.

Conclusion and Outlook

The outcome of the US presidential election on November 5, 2024, is of major relevance to German industry, as shown by the results of the ifo Business Survey from September 2024. Many German firms are linked to the US economy through export, import, and production relations. The US stands out particularly as an export market, playing a crucial role for one in three German manufacturing firms. Compared to a possible presidency of Kamala Harris, around 44 percent of firms expect negative effects on their own business situation if Donald Trump wins the election. This includes many firms without direct US business ties who could be affected through domestic production networks. Most firms consider Donald Trump's election a realistic scenario, even though a majority rates Kamala Harris' chances of winning slightly higher. Notably, firms that associate a second Trump presidency with negative consequences for their business tend to rate Harris' chances of winning more favourably. However, on the eve of the US election, only a small minority of German manufacturing firms (4 percent) are planning specific measures for a potential second Trump presidency. Whether firms will need to adopt adaptation strategies after the election remains to be seen.

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