Flash Economics

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Weakening exports from European countries to the United States: the effect of tariffs or the effect of weak growth in the United States?

US imports of goods from the European Union fell from $57 billion in January 2025 to $44.6 billion in July 2025. There are several possible explanations for this decline:

- A correction after the very strong surge in EU exports to the United States in March 2025, in anticipation of the forthcoming tariffs;
- A contraction in exports due to tariffs (15% on all goods, except steel, aluminium and copper, for which tariffs of 50% are applied);
- A trade diversion effect (for example, exports from the EU to the US may transit through Mexico);
- A consequence of weak growth in the United States since the beginning of 2025.

We believe that the decline in EU goods exports to the US since the start of Q2 2025 is linked to the correction of the sharp rise in EU exports in March 2025 and the weakness in US consumption in H1 2025. There is no sign of European exports to the US being diverted through Canada or Mexico, nor of a rise in the price of US imports as a result of the introduction of tariffs.

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Exports of goods from the European Union to the United States have been falling since April 2025

Imports of goods by the United States from the European Union have been falling sharply since April 2025, compared with their previous level (Chart 1).

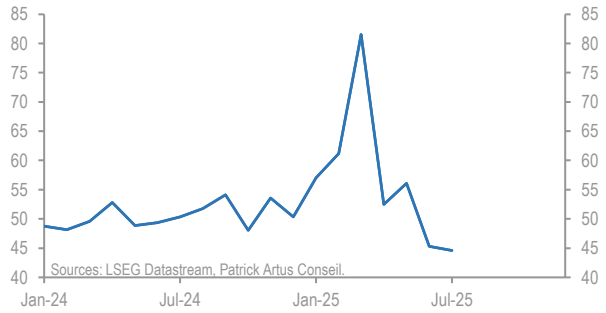
Chart 1
United States : Imports of goods from European Union
(monthly data, in USD bn)



One can wonder about the possible reasons for this decline in imports by the US of goods from the European Union:

- A correction after the sharp rise in imports of goods in March 2025 in anticipation of the introduction of tariffs (Chart 2);

Chart 2
United States : Imports of goods from European Union
(monthly data, in USD bn)



- A diversion of exports from the European Union to the United States, which would be increasingly channelled through third countries (Mexico, for example) ;
- An effect of the tariffs that tax European countries (from April to July 2025, a tariff of 10% on all imports, and 25% on cars; since August 2025, 15% tariffs on US imports from the EU, on all products except steel, aluminium and copper, on which tariffs are 50%);
- Lastly, perhaps simply as a consequence of weak growth in the United States.

A correction after the sharp rise in EU exports to the US in March 2025?

We saw above (Chart 2) that EU exports to the US were very high in March 2025 due to the anticipation of the introduction of tariffs in April 2025. When we add up the drop in US imports from the EU from April to July 2025, we see that this cumulative fall ($31 billion) far outweighs the abnormal rise in March 2025 compared with January 2025 ($24 billion). **The anticipation of the introduction of tariffs does not explain all of the permanent decline in US imports from the EU since April 2025**.

Diversion of trade flows?

The question arises as to whether the introduction of tariffs has led European exporters to channel their exports through other countries, in particular Mexico and Canada. Indeed, 84% of Mexico's exports to the United States are not subject to customs duties because they are covered by the United States-Canada-Mexico Free Trade Agreement (USMCA). Other Mexican exports not covered by this agreement are subject to a 25% tariff. The same applies to Canadian exports to the United States, 90% of which are not subject to any tariffs.

Chart 3A
Exports of goods to the United States
(monthly data, in USD bn)

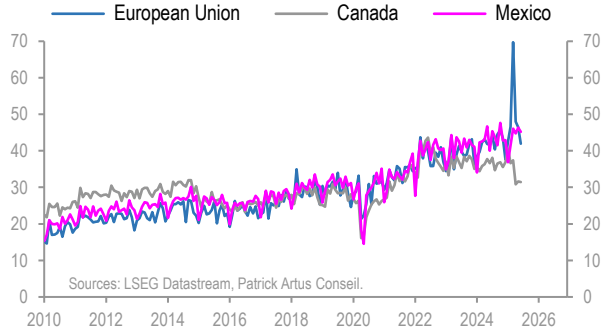
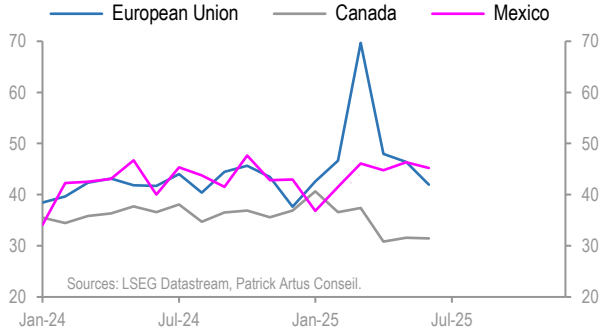


Chart 3B
Exports of goods to the United States
(monthly data, in USD bn)



Charts 3A/B show no increase in exports from Canada or Mexico to the US since January 2025.

A contraction in exports to the United States due to tariffs?

Available studies show that the pass-through of tariffs on US imports is close to 1. This means that the price of US imports is growing at about the same rate as tariffs. If we look at the price of US imports (**Charts 4A/B**), there has been no increase in this price since the beginning of 2025, which seems to rule out a decline in US imports from Europe as a result of the rise in their price.

Chart 4A
United States: Import prices

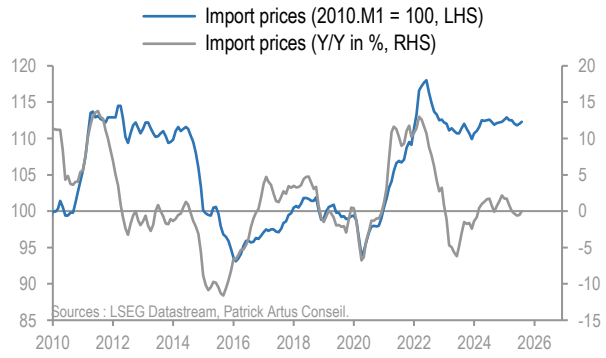
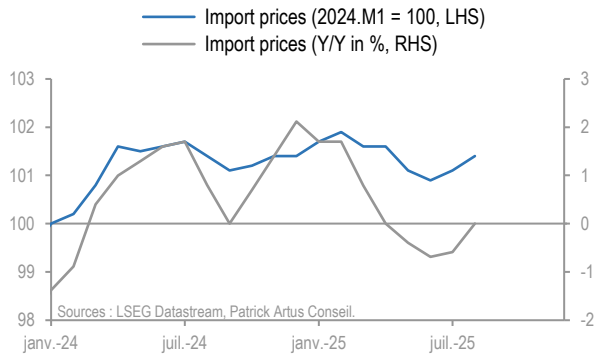


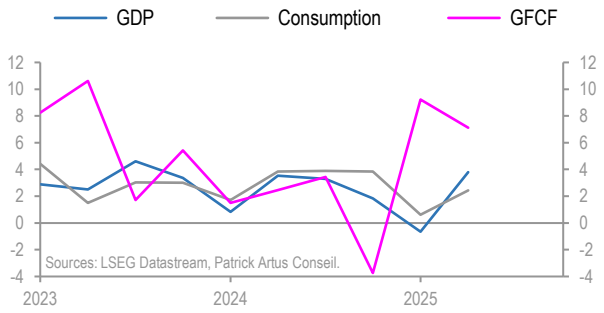
Chart 4B
United States: Import prices



The effect of the slowdown in US growth?

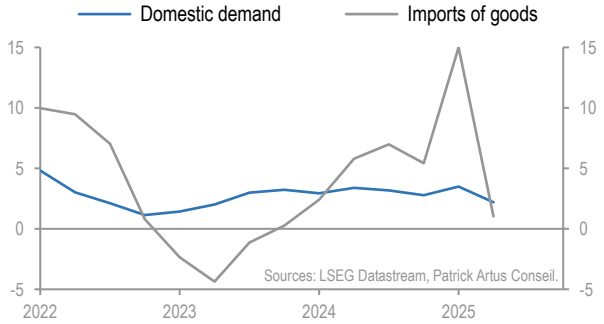
If we look at GDP growth or domestic demand in the United States (**Chart 5**), we see that **the pace of growth in the first half of the year (1.50% annualised) is clearly slower than in previous years**, due to the slowdown in household consumption.

Chart 5
United States: GDP, personal consumption expenditure, private non-residential gross fixed capital formation (in volume terms, Q/Q, annualised)



Since imports in volume terms have an apparent elasticity of 2 with respect to domestic demand (Chart 6), this slowdown in growth justifies a 2.6-point slowdown in the growth rate of US imports in volume terms, but not a decline in the latter.

Chart 6
United States: Domestic demand and imports of goods (Y/Y as %)



Summary: What is behind the decline in EU exports to the United States?

We have considered:

- Compensation for the sharp rise in exports to the US in March 2025 before the introduction of tariffs; but we have seen that the scale of the decline in EU exports to the US outweighs the abnormal part of this rise in March 2025;
- Transit of EU exports to the US via other countries (Mexico, Canada) where customs duties are lower (or even non-existent). We have seen that this is not the case;
- A fall in exports from the European Union to the United States due to the introduction of 15% tariffs (50% on steel, aluminium and copper); we have seen that the price of imports by the United States is not currently rising;
- That this decline in EU exports to the United States is due to the weakening growth of domestic demand in the United States, which is probably one of the causes of the weakness of EU exports to the United States since April 2025.

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