CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

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Markets brace for April tariffs

Following a mid-March lull in policy launches by President Trump, last week's announcement of a 25% tariff on auto imports has hit global markets once again, ahead of an expected declaration of broader tariffs on April 2nd. The impending tariffs have particularly impacted equity markets in Asia and Europe, key exporters of cars and components to the US. In Europe, Germany, Sweden and several central European countries are most exposed to the new tariffs, which are expected to be implemented by April 2nd. Elsewhere, the release of hotter than-expected US PCE inflation at the end of last week also adds to a general 'stagflationary' theme for markets, albeit the accompanying spending data suggests US consumers remain unperturbed by the tariff threat for now, despite plunging household sentiment surveys of late.

While announcing the auto tariffs, Trump also referenced - once again - the pharmaceuticals sector for future tariffs, but there is not yet any indication of the scope of these measures. In Europe, Ireland remains most exposed to tariffs in this sector. In 2024, Ireland's goods trade with the US was c.€73bn, of which 80% was in the pharmaceuticals sector. Nonetheless, while the US is a key export market for Irish goods, accounting for one third of exports, the pharma industry here is also servicing other global markets. If tariffs are introduced, it remains unclear how the increased costs will distribute between US consumers and Irish-based producers, depending on the elasticity of demand and currency movements. Given the 'necessity' status of medicines, a lower elasticity might be expected, particularly given the long-lead in times for firms to potentially shift production to the US – a stated goal of President Trump. Ireland accounts for about a fifth of total US pharma imports, so a blanket global tariff could counter-intuitively be a 'less-worse' outcome, than an EU-specific measure which erodes Ireland's competitiveness against non-EU producers. However, beyond pharma are a multitude of smaller Irish firms, mainly in agri-food, who will not benefit from the 'inelastic' demand and balance sheet power of the pharma sector.

However, the imposition of tariffs will likely be a drag on manufacturing output and GDP growth in Ireland, and to a lesser extent on the labour market and domestic demand, highlighted in new forecasts by the ESRI. In its base case, it expects modified domestic demand (MDD) to increase by 3.0% in 2025 and 2.8% in 2026. In its alternative scenario, which assumes 25% bilateral tariffs between the US and the EU for goods trade, MDD growth is forecast to be 2.8% in 2025 and 2.1% in 2026.

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