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Ifo Survey: German Industry Already Feels the Strain of U.S. Tariffs

A recent survey by Germany's Ifo Institute reveals that the latest wave of U.S. tariff hikes is already taking a toll on German industry. The effects are not limited to transatlantic trade; they are rippling across investment decisions both in the

Weekly report

What was important in the German economy last week?

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United States and domestically in Germany.

According to the survey, nearly one in three German companies that had originally planned to invest in the U.S. have postponed their plans due to the tariffs. Another 15% of companies have canceled their U.S. investment plans altogether. This hesitation reflects growing uncertainty around the stability and attractiveness of the U.S. market as a result of protectionist policies.

The impact is also being felt at home: 21% of companies reported delaying investment projects in Germany, while 8% said they had scrapped them completely. The Ifo Institute notes that this trend is particularly pronounced among companies directly affected by the Trump-era tariffs, suggesting that the broader trade policy climate is dampening investment confidence.

More than 60% of industrial firms surveyed reported negative consequences from the higher tariffs. Especially hard-hit are export-driven sectors such as mechanical engineering, with 87% of firms in the sector noting adverse effects, and metal production, where 68% of companies reported similar experiences.

Even German firms with established U.S. operations are struggling: over 80% say they are experiencing tangible disadvantages due to the trade measures. “Trump’s tariffs represent a profound trade policy shock,” said Andreas Baur, trade expert at the Ifo Institute. “They are forcing companies to reassess their global market strategies and reorient their investment decisions.”

The survey also suggests that the U.S. market is losing its relative importance in the eyes of German manufacturers. One-third of industrial firms anticipate a shift in global trade flows away from the U.S., with companies increasingly looking toward alternative growth markets.

In particular, around 40% of respondents see new or growing sales opportunities within the European single market and in India. Only a small fraction expects trade volumes in those regions to decline.

Views on the Chinese market are more mixed: 17% of companies expect China’s importance to decrease, while 25% foresee it gaining significance for their business. Notably, nearly 60% of surveyed firms anticipate that Chinese suppliers, sidelined by U.S. tariffs, will increase their push into European markets. This could further heighten competitive pressure on German industry, particularly in price-sensitive sectors.

The findings underscore a broader trend: as protectionism redefines global trade routes, German companies are being forced to adapt their strategies—sometimes at the expense of long-term investments.

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“Germany is Back”: Merz Unveils €631 Billion Investment Initiative

At a high-profile economic summit held at the Federal Chancellery in Berlin, German Chancellor Friedrich Merz declared a new era for the country’s economy, announcing that “Germany is back.” Backed by a coalition of 61 major national and international corporations, the initiative—titled Made for Germany—promises investments totaling €631 billion over the next three years. This, Merz emphasized, represents one of the most significant investment pledges in decades.

The summit brought together top executives from leading firms such as Deutsche Bank, Siemens, SAP, BMW, Mercedes-Benz, Allianz, Rheinmetall, Volkswagen, Airbus, and international players including Nvidia, Blackrock, and Blackstone. The companies committed to a mix of new and ongoing capital investments, as well as increased spending on research, development, and innovation in Germany.

While some of the pledged investments had already been planned, a substantial share is expected to flow into new projects. Details on individual investments, however, remain sparse.
The initiative aims above all to send a strong signal: that Germany remains an attractive destination for industry and innovation despite recent economic sluggishness.
During the meeting, business leaders expressed support for Germany as an industrial base but also called on the government to cut red tape and improve regulatory conditions. Siemens CEO Roland Busch urged the need for a "new operating system" for Germany’s economy—one focused on growth, digital transformation, and global competitiveness. Deutsche Bank CEO Christian Sewing echoed that sentiment, praising the government's renewed focus on economic dynamism.

Viessmann CEO Maximilian Viessmann pointed to unique competitive advantages Germany holds over the U.S., particularly in climate tech. While the U.S. is currently slowing down in this area, he argued, Germany has the opportunity not just to develop but to actively deploy cutting-edge green technologies. However, he warned that progress would depend on public investment in research rather than direct subsidies.

Though the initiative was criticized by some for focusing too heavily on large corporations, proponents stressed that small and medium-sized enterprises (SMEs) would also benefit through wider opportunities in the German economy.

Chancellor Merz framed the gathering as a turning point, calling for a long-term partnership between politics and industry. He and Vice Chancellor Lars Klingbeil signaled openness to structural reforms that would help unlock private capital. Government spokespersons emphasized that the scale of commitments even exceeded expectations.

In conclusion, while the summit included elements of strategic messaging, it underscored a growing consensus: revitalizing Germany's economy requires not only bold investment from business but also swift political action to modernize the framework in which that investment takes place.

German Hospitality Sector Suffers Steepest Revenue Decline Since Late 2021

After a brief uptick around Easter, the situation in Germany's hospitality industry has deteriorated once again. In May 2025, the sector experienced its sharpest monthly revenue drop in more than three years, according to data released by the Federal Statistical Office on Monday.

Revenues across restaurants, bars, hotels, and other accommodations fell by 2.2% compared to April. When adjusted for inflation, the real decline reached 4.6%—marking the most severe contraction since December 2021, when pandemic-related restrictions were still disrupting the industry. Compared to May 2024, inflation-adjusted sales were down by 4.0%.

Hotels and other lodging providers were particularly hard hit, with real revenues falling by 7.0% from the previous month. Food and beverage businesses, including restaurants and pubs, reported a 3.9% drop in real terms.

Industry representatives are calling for political support to revive the sector. The coalition agreement between the CDU/CSU and SPD includes a proposal to permanently reduce VAT on meals in restaurants from 19% to 7% starting in January 2026—raising hopes for relief.

However, new cost pressures are looming. The hospitality association Dehoga warns that the sector is also bracing for a substantial increase in labor costs. Germany's Minimum Wage Commission has decided to raise the statutory minimum wage from €12.82 to €13.90 per hour in January 2026, and to €14.60 in 2027.

"With revenues falling and costs rising sharply, many businesses have reached their financial limits," said Dehoga President Guido Zöllick. "They're backed into a corner."

The slump in hospitality revenues casts a dark cloud over the outlook for private consumption. Retailers have also reported weak sales in recent months. This downturn follows a period earlier in the year when rising household spending had helped boost Germany's GDP.

Germany's Economic Resilience Now a Pillar of National Defense

In light of mounting geopolitical tensions and an increasingly uncertain global security landscape, German policymakers and industry leaders are calling for a broader understanding of national defense—one that extends beyond tanks and missiles to include the economy itself. As military threats loom, particularly from Russia, and confidence in NATO solidarity has been shaken by remarks from U.S. President Donald Trump, Germany is reassessing what "total defense" must entail. At the core of this reevaluation is a realization: the private sector must become more resilient and crisis-ready.

Economy as a Critical Pillar of Defense
Baden-Württemberg's Minister of Economic Affairs, Nicole Hoffmeister-Kraut, emphasizes that defense capability today depends as much on economic stability as it does on military hardware. She notes that it's not just arms manufacturers that need to prepare—but all sectors of the economy. Companies must be ready to withstand disruptions, maintain operations, and contribute to national resilience in times of crisis.

This mindset is reflected in new initiatives, including the creation of a Coordination Center for Total Defense at the Chamber of Industry and Commerce (IHK) Bodensee-Oberschwaben in southern Germany. The center recently hosted an awareness event in Friedrichshafen, aimed at sensitizing business leaders to emerging threats.

Martin Buck, president of the IHK, stresses: "The economy is one of the key pillars of credible deterrence and defense capability. If the supply of goods collapses within days, all military and civil protection plans fall apart."

Hybrid Warfare: More Than Just Missiles
Security experts warn that modern threats often take the form of hybrid warfare—a blend of cyberattacks, disinformation, political manipulation, and targeted sabotage of economic infrastructure. These attacks are often difficult to trace and can be just as devastating as conventional military strikes.

Stephan Gundel, chief security advisor at Swiss-based Gruner AG, points out that German companies are already under attack. Critical infrastructure—such as rail networks, airports, hospitals, and government ministries—are being targeted. According to Gundel, approximately 75% of German firms have already been subjected to espionage, often without their knowledge. The rise in sabotage and organized cybercrime since the start of the war in Ukraine is well-documented, and intelligence suggests that actors from Russia and China are behind many of these activities.

Fragile Supply Chains and Internal Weaknesses
Gundel also highlights the vulnerability of global supply chains, especially when dependencies stretch across unstable or authoritarian countries. He urges firms to conduct critical reviews of their operations: Are suppliers reliable? Can they be replaced if needed?

For example, a seemingly local supplier based at Lake Constance may rely on a Hungarian subcontractor, who in turn sources from Belarus. Political shifts or conflict in any of these countries could cripple the entire chain. Outsourcing essential business functions like HR or IT to distant, politically volatile regions increases the risk further.

Dual-Use Potential and Strategic Self-Sufficiency
Minister Hoffmeister-Kraut encourages companies to assess their potential for dual-use production—technologies or products that serve both civilian and military needs. She also calls for greater integration between civilian innovation and defense research. Local value

chains should be reinforced, and businesses must consider how to adapt production lines swiftly in case of emergency. Her message is clear: “We hope the worst-case scenario never comes. But we have a responsibility to prepare ourselves as best we can.”

From Regional Pilot to National Model
To put this strategy into action, the Ministry of Economic Affairs is backing the IHK’s total defense initiative, starting in Bodensee-Oberschwaben—a region already home to defenseoriented firms like Airbus, Diehl Defence, and Rolls-Royce Power Systems.

A new training program has been launched to help companies prepare for crisis conditions. The pilot is currently regional, but with support from the national Chamber of Commerce (DIHK), it may expand across Germany. Businesses are being taught how to maintain operational autonomy for at least 72 hours during major disruptions.

Tim Bartsch from the IHK coordination office explains: “We’re showing companies how to stay functional when supply chains, electricity, or communications systems break down—even just for three days.”

Urging Realism Over Complacency
The program is driven by a growing sense of urgency. Gundel warns against underestimating the threats: “In early 2022, many said Putin would never invade Ukraine. In early 2020, officials claimed COVID-19 wouldn’t spread—when it had already reached Bavaria.”

Recent blackouts in Spain, Portugal, and Italy underscore just how fragile modern societies are. For Germany, the lesson is clear: without an economy that can survive and adapt under stress, national defense is incomplete.

Number of ATMs in Germany Drops Below 50,000 Amid Digital Shift

Germany is seeing a continued decline in the number of ATMs as the trend toward digital payments accelerates. According to the German Bundesbank, the total number of automated teller machines across the country fell by around 3% in 2024, dropping to approximately 49,750. Just a year earlier, there were about 51,300 machines in operation. This development is part of a broader shift in the financial landscape, as more consumers adopt cashless payment methods and bank branches shut down.

The decline is not limited to ATMs. Self-service terminals used for tasks like money transfers also saw a similar reduction—down from about 23,200 to 22,500 units.

Digital Payments on the Rise
The Bundesbank notes that card-based payments are becoming increasingly common in Germany. In 2024, the number of card transactions rose to approximately 13 billion, an 11% increase compared to the previous year. Direct debits and online transfers also grew steadily.

A recent Postbank survey from March 2025 highlights a generational and behavioral shift:
nearly two-thirds of respondents now prefer cashless payments for everyday purchases, using debit or credit cards, or mobile payment solutions such as smartphones and smartwatches.

Fewer Branches, Fewer ATMs
The shrinking ATM network is closely tied to the closure of traditional bank branches. As more people manage their finances via smartphones and online platforms, physical locations have become less central to banking operations. This ongoing trend has led banks to reduce their footprint significantly.

In 2024 alone, the number of bank branches in Germany dropped by more than 8%, leaving just 17,870 locations nationwide. This decline directly affects ATM availability, especially in rural areas or regions where branch networks have thinned out considerably.

Access to Cash Still Stable—but Less Convenient
Despite the falling number of ATMs and branches, the Bundesbank insists that access to cash remains largely intact. On average, German residents live 1.4 kilometers from the nearest ATM or bank counter. Approximately 80.7 million people—roughly 95.7% of the population—still live in communities that host at least one ATM or bank service point.

However, the Bundesbank acknowledges that withdrawing cash has become more inconvenient for some, especially in areas that are less densely populated or that have seen disproportionate numbers of closures.

Germany Significantly Boosts Rail Spending—But Gaps Remain

Germany has dramatically increased its investment in rail infrastructure, yet still lags behind several of its European neighbors. According to the latest annual report by Allianz pro Schiene and consulting firm SCI Verkehr, the German federal government allocated nearly €200 per capita to the national rail network in 2024—representing a 74% increase compared to the previous year's €115.

The surge in spending reflects the growing urgency to modernize and expand the overburdened German rail system, which is currently experiencing unprecedented levels of construction, temporary closures, and repair work. However, despite this progress, Germany only moved from 9th to 7th place in the European investment ranking. Countries such as Luxembourg (€587), Switzerland (€480), and Austria (€352) remain far ahead in per capita railway spending.

More Than Just Money Required
Dirk Flege, managing director of Allianz pro Schiene, welcomed the increase but cautioned against relying on funding alone. "We're seeing a positive trend in rail investment, and that's expected to continue," he said. "But money alone won't solve the systemic issues. The new Special Fund for Infrastructure and Climate Neutrality is a step forward, but it doesn't replace the need for a long-term, sustainable financing structure."

Flege called for the creation of a dedicated rail infrastructure fund, which has been under discussion for years, to ensure steady investment. He also stressed the need to prioritize longdelayed new construction and expansion projects, warning that these critical upgrades can no longer be postponed without severe consequences for network capacity and reliability.

Delays Despite Record Spending
One recent example underscores the challenges: the long-planned high-speed rail link between Mannheim and Frankfurt is now at risk due to funding shortfalls. Tarek Al-Wazir, chair of the Bundestag's transport committee, warned that the project—decades in the making—could be shelved without new financial commitments.

Despite the availability of the €500 billion Special Infrastructure and Climate Fund, of which

€300 billion is earmarked for federal investment over the next 12 years, gaps in funding persist.
The federal government plans to invest over €100 billion into the rail network by 2029. Yet even with this unprecedented level of support, Deutsche Bahn warns of underfunding by 2027. The main drivers are the costs of overhauling 40 high-performance corridors and modernizing signaling and train control systems.

The scale of these efforts is already visible: On August 1, Deutsche Bahn will begin one of the largest rail infrastructure projects in the country—completely rebuilding the line between Hamburg and Berlin. Spanning nearly 280 kilometers, the project will replace tracks, switches, overhead lines, stations, and signal boxes. The price tag is €2.2 billion. However, even this sum falls short of covering the cost of fully digitizing the route, forcing planners to scale back ambitions.

Sector Calls for Structural Reform
Industry stakeholders have long pushed for a sustainable financing mechanism, independent of political cycles. Both Allianz pro Schiene and SCI Verkehr argue that the coalition government's commitment to a rail infrastructure fund—mentioned in the coalition agreement between the CDU/CSU and SPD—must now be implemented.

SCI Verkehr CEO Maria Leenen pointed to Austria and Switzerland as role models: "They've shown for years how to run a high-performance railway. They have multi-year financing plans, clear government targets, and rigorous monitoring systems."

She also noted that Germany is falling behind in digitalization, where countries like Italy are moving much faster. Without a structural overhaul of how rail projects are financed and managed, Germany risks continuing to play catch-up in Europe's railway race.