The Transatlantic Economy Pulse

How Businesses Navigated Transatlantic Tensions in the First Half of 2025

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Table of Contents

About this Brief

In a year marked by volatility in transatlantic relations, this brief identifies trade and investment trends between Europe and the U.S. in the first half of 2025. It offers a preview of the 23rd edition of *The Transatlantic Economy*, the annual survey of Europe-U.S. investment, trade and jobs, to be published in March 2026.

Key Takeaways

01.

Effective Tariff Rates

U.S. tariffs on EU goods have risen significantly, even after the EU-U.S. Framework Agreement. EU tariffs on most U.S. goods are set to fall to zero, but this has not yet been adopted by the European Parliament and the Council of the EU.

- U.S. effective tariffs on EU goods: 16-18% (2024: 3.5%)
- 50% U.S. tariffs on EU steel, aluminum and copper products

02.

Investment (January – June)

European FDI to the U.S. was spurred by U.S. investment demands and policy shifts; U.S. FDI to Europe fell precipitously, driven by outflows from Ireland.

- European FDI to U.S.: $96.6 billion (+5.4%*)
- U.S. FDI to Europe: $10.8 billion (-77.4%*)

03.

Affiliate Earnings (January – June)

A weaker dollar boosted U.S. earnings in Europe and hit European earnings in the U.S.

- EU affiliates in U.S.: $95 billion (-9.1%*)
- U.S. affiliates in EU: $182.4 billion (+10.7%*)
- 62.5% of U.S. firms' total overseas earnings made in Europe

04. Trade

Goods trade, especially U.S. imports of EU goods, surged in expectation of tariff disruption, while services trade continued steady growth.

- U.S.-EU trade in goods and services (January-June): $824.9 billion (+11.5%*)
- U.S. deficit: $101.5 billion (+31%*)

Goods (January – July)
- U.S. exports to EU: $236.9 billion (+10%*)
- U.S. imports from EU: $396.0 billion (+13.8%*)
- U.S. deficit: $159.2 billion (+20%*)

Services (January - June)
- U.S. exports to EU: $160.6 billion (+10.1%*)
- U.S. imports from EU: $107.7 billion (+6.9%*)
- U.S. surplus: $52.9 billion (+17.3%*)

U.S.-Europe Goods Trade (January – July)
- U.S. exports to Europe: $340.7 billion (+16.8%*)
- U.S. imports from Europe: $545.2 billion (+25.1%*)
- U.S. trade deficit: $204.5 billion (+41.8%*)

05. Corporate Strategies

No single playbook: depending on their unique risk factors, companies are deploying a range of strategies to deal with uncertainty.

- Cost absorption
- Price increases
- Stockpiling
- Supply chain shifts

*Change versus same period in 2024.

The State of Play: Uncertainty Is the Only Certainty

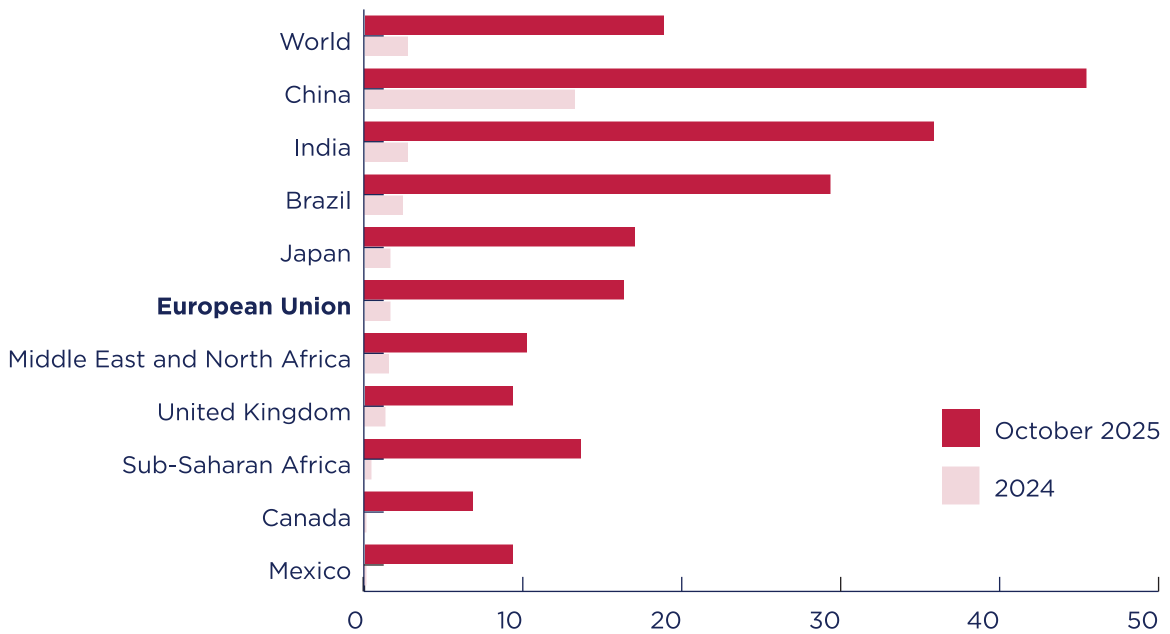
As expected, 2025 so far has been a challenging year for the transatlantic economy. The rules-based international order of the past eighty years is fracturing, leaving Europe, the most open and trade-dependent region of the world, exposed to several global crosscurrents. An expansionist Russia, a mercantilist China, and a protectionist United States represent key challenges to Europe in particular and the transatlantic economy in general.

Transatlantic trade and investment ties are being tested by Washington's sweeping imposition of tariffs on its trading partners.

Transatlantic trade and investment ties are being tested by Washington's sweeping imposition of tariffs on its trading partners. In the first half of the year, the U.S. administration introduced several tariffs on European goods entering the United States. By the end of July, and after much bilateral negotiation, the U.S. and the EU reached a Framework Agreement that averted a full-blown transatlantic trade war. They agreed to zero tariffs for aircraft and related parts, generic pharmaceuticals and their ingredients and chemical precursors, and certain unavailable natural resources. The U.S. committed to apply a baseline 15% tariff on most EU products, including vehicles and semiconductors, and to consider other sectors and products for exclusion from the 15% rate. However, Washington did not exempt the EU from its 50% tariff on steel, aluminum, copper and their derivative products.

For its part, the EU committed to eliminate tariffs on all U.S. industrial goods and to grant preferential access for a wide range of U.S. non-sensitive agricultural and seafood goods. It pledged to buy "at least" $40 billion worth of U.S. artificial intelligence chips, to "substantially increase" procurement of military and defence equipment from the United States, and to invest $600 billion in the U.S. and

U.S. Effective Tariff Rate by Country



Source: International Monetary Fund. Data as of October 2025 purchase up to $750 billion worth of U.S. energy goods over the next three years. The Agreement also provides a platform for cooperation on common priorities, such as cybersecurity, economic security, digital trade, supply chain resilience and defence capabilities.

After factoring in the 50% tariff on aluminum, steel and copper products and their derivatives together with the 15% baseline tariff and other reciprocal tariffs under the July agreement, most analysts conclude that the effective U.S. tariff rate for EU goods currently ranges between 16-18%. That is not as bad as feared but still represents more than a five-fold increase in tariffs from the start of the year. This overall figure, however, masks wide differences in the effective tariff rate for individual EU member states. ING research estimates that Slovenia, for instance, could face an estimated tariff hike of 45% due to some of its exports subject to the high aluminum and steel tariffs, whereas Germany's rate looks to be 20.4% and Ireland's rate 10.5%.

Estimated effective U.S. tariff rate on EU goods: 16-18%

The EU-U.S. arrangement offered, to a degree, more predictability and clarity to the dynamics governing transatlantic trade and investment, although many provisions have not yet taken effect. On the EU side, the European Parliament and the Council of the EU still must sign off on the European Commission's tariff reduction proposals. On the U.S. side, the legality of tariffs imposed by the U.S. administration under the International Economic Emergency Powers Act of 1977 (IEEPA) is being considered by the U.S. Supreme Court – with the result uncertain. The U.S. also continuously revises its list of steel and aluminum derivative products, which could subject additional EU products to the 50% tariff. The Framework Agreement also did not address other important areas of the transatlantic economy, such as services and digital regulations. Expect more turbulence ahead.

Uneven Growth

Economic growth has continued on both sides of the Atlantic, although the U.S. economy, led by strong capital investment in artificial intelligence, continues to expand at a much faster clip than Europe. Notwithstanding the negative shock from U.S. tariffs and resulting uncertainty, the U.S. economy expanded by nearly 4% in real terms in the second and third quarters of this year. Overall, it heads into 2026 on solid economic footing, although the decline in inflation has stalled and public debt has risen to 120% of GDP, higher than France's 113%.

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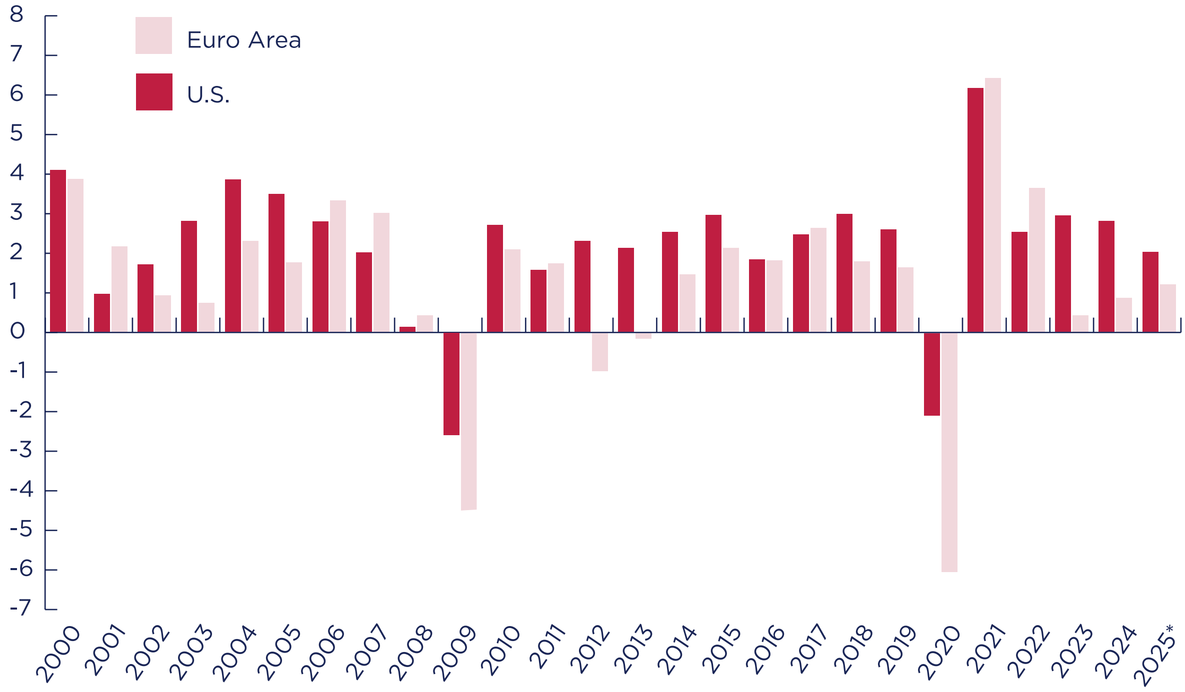
U.S. vs. Euro Area Real GDP, Annual Percent Change



*Estimate. Source: International Monetary Fund. Data as of October 2025

The economic outlook in Europe is less robust and more of a mixed bag: fiscal expansion is supportive of growth in Germany, while France, Italy, and the United Kingdom confront tighter fiscal positions. Meanwhile, Europe's trade sector remains vulnerable to soaring Chinese imports that will result in China running a global merchandise trade surplus of more than $1 trillion this year. With China diverting more trade towards Europe due to higher U.S. tariffs, the EU's merchandise trade deficit with China topped $330 billion last year (the second highest on record) and soared by roughly 36% in the first half of this year ($190 billion). European manufacturers are being squeezed by U.S. tariffs on the one hand and China's export onslaught on the other. China's restrictions on rare earth exports have been another blow.

Looking ahead, and after a resilient start, global activity is expected to moderate into 2026 as the front-loading effects of trade fade, labor markets soften in both the U.S. and Europe, and fiscal vulnerabilities push up borrowing costs for the U.S. and many European states, notably France and the United Kingdom. A key worry in the U.S. lies with the massive buildout of the AI infrastructure – and the attendant effects on jobs over the long-run. Certain observers have also raised concerns that growth projections for AI may not meet profit expectations, resulting in weaker growth. However, that remains to be seen and is premature at this juncture.

Concerns in Europe revolve around the region's structural impediments to growth, including an aging labor force, unsustainable fiscal positions, and overwhelming regulatory and administrative burdens on businesses. Mario Draghi's 2024 report on EU competitiveness touched on many of these factors, although to date, of Draghi's 383 recommendations, only 11% have been adopted.

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Emerging Trends in 2025

Transatlantic Trade: Adapting to Uncertainty

Notwithstanding the heightened level of trade uncertainty this year, transatlantic merchandise trade flows were remarkably robust in the first seven months of this year. U.S. exports to Europe rose 16.8% from the same period a year ago, to $237 billion, while U.S. imports from Europe soared 25.1%, to $545 billion. The difference – i.e., the U.S. merchandise trade deficit with Europe – totaled $204 billion, a 41.8% increase from the same period a year ago.

Against a sea of uncertainty, transatlantic trade flows in 2025 reflect many different factors. One catalyst for U.S. exports was the U.S. dollar's near 11% decline against the euro in the first nine months of this year, in addition to the 6% drop against the pound and 11.7% fall versus the Swiss franc. Increased U.S. energy and defense exports have also bolstered U.S. shipments to Europe.

U.S. imports from Europe, meanwhile, were supercharged by firms front-loading imports ahead of the imposition of U.S. trade levies. To this point, U.S. imports from Ireland soared by nearly 75% in the first seven months from the same period a year ago, as pharmaceutical companies rushed product to the U.S. Swiss exporters did the same, with U.S. imports from Switzerland rocketing by nearly 200% in the January-July period.

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Due in part to the front-loading of European shipments to the U.S., Europe's trade surplus with the U.S. widened significantly in the first seven months of this year – just the opposite of the intended effects of U.S. tariffs. However, data released from Eurostat – for the month of August – shows a more mixed impact on trade. To this point, according to August 2025 Eurostat trade data, EU goods exports to the U.S. dropped by 22% from the same period a year ago. Month-to-month, EU exports declined by 1.2% in August, while imports dropped by 2.1%, narrowing the EU's trade surplus with the U.S.

U.S. Goods Trade with Europe: January - July 2025

USD Billions

Partner	U.S. Goods Exports	YoY (%)	U.S. Goods Imports	YoY (%)	Balance	YoY (%)
Europe	**340.7**	**16.8%**	**545.2**	**25.1%**	**-204.5**	**41.8%**
European Union	**236.9**	**10.0%**	**396.0**	**13.8%**	**-159.2**	**20.0%**
Austria	3.2	25.3%	9.5	-5.5%	-6.3	-16.1%
Belgium	20.3	-2.9%	16.5	5.3%	3.8	-27.6%
Czech Republic	2.6	-3.0%	5.0	6.3%	-2.5	18.2%
Finland	1.6	10.0%	4.9	9.2%	-3.3	8.9%
France	29.9	18.9%	39.6	13.5%	-9.7	-0.6%
Germany	47.9	8.6%	92.4	-2.3%	-44.5	-11.8%
Hungary	2.0	5.7%	7.5	12.7%	-5.6	15.4%
Ireland	10.1	0.7%	94.9	73.3%	-84.8	89.5%
Italy	23.2	25.6%	45.8	1.1%	-22.6	-15.7%
Netherlands	55.8	10.5%	22.4	13.8%	33.4	8.4%
Poland	8.1	18.9%	8.4	6.7%	-0.3	-68.9%
Spain	15.8	9.0%	13.3	2.8%	2.4	63.6%
Sweden	5.4	8.1%	9.9	-8.9%	-4.5	-23.4%
Other	11.2	-2.3%	25.9	1.8%	-14.7	5.2%
Non-EU Europe						
Norway	2.8	19.0%	4.2	14.5%	-1.4	6.5%
Switzerland	30.7	91.9%	86.5	197.2%	-55.7	325.9%
United Kingdom	55.1	23.6%	39.0	0.2%	16.0	186.3%

Source: Bureau of Economic Analysis.

While goods trade has dominated headlines, services trade between the U.S. and the EU quietly posted strong gains in the first half of 2025. U.S. exports of services to the EU rose by just over 10% year-on-year to $160.6 billion, while imports increased by nearly 7% to $107.7 billion. This widened the U.S. services surplus with the EU to $52.9 billion – a 17% increase from the same period in 2024. These figures underscore that the U.S. and the EU remain each other's most important services trading partners, even in an unsettled transatlantic trade landscape.

Services trade between the U.S. and the EU quietly posted strong gains in the first half of 2025

Transatlantic Foreign Direct Inflows (FDI): Mounting Signs of Strain

Given the current uncertainty around U.S. trade and investment policies, transatlantic FDI flows have been quite volatile and unpredictable this year. America's shift in trade has triggered a great deal of caution among multinationals struggling to figure out the rules and regulations of transatlantic commerce. In addition, the One Big Beautiful Bill Act – particularly its corporate tax provisions – have strengthened the U.S. investment proposition. The result has been a shift toward more domestic investment from U.S. multinationals, driven in part by policy changes (tax, regulation), supply chain disruptions (tariffs), geopolitics, labor costs, energy shortages, and related items. Against this backdrop, U.S. outflows to Europe totaled just $10.8 billion in the first half of this year, down some 77% from the prior year. The decline, however, was largely due to the -$74.3 billion drop in U.S. in investment in Ireland, and the falloff in pharmaceutical investment. U.S. FDI flows rose to such countries as the Netherlands and France but declined generally elsewhere.

FDI flows from Europe to the U.S. rose 5.4% in the first half of 2025, following a robust rise in inflows in 2024 (+25%). Leading investors by country include France, Germany, the Netherlands, and the United Kingdom. European firms remain attracted to the U.S. for a variety reasons, enticed by the large and wealthy U.S. consumer market, a skilled labor force, and a technology-led ecosystem that attracts high-tech investment from around the world.

FDI flows from Europe to the U.S. rose 5.4% in the first half of 2025

Transatlantic Foreign Capital Flows, 1H 2025

USD Billions

	U.S. FDI Flows to Europe	YoY (%)	European FDI Flows to the U.S.	YoY (%)
2020	145.0	-	35.0	-
2021	168.9	16.5%	254.2	626.3%
2022	114.0	-32.5%	213.3	-16.1%
2023	115.7	1.5%	141.3	-33.8%
2024	154.9	34.0%	176.2	24.7%
1H 2025	**10.8**	**-77.4%**	**96.6**	**5.4%**
2025*	**21.7**	**-86.0%**	**193.2**	**9.6%**

*Annualized using 1H 2025 data. Source: Bureau of Economic Analysis.

Transatlantic Foreign Affiliate Income: Advantage U.S.

The weak U.S. dollar has emerged as a significant earnings tailwind for U.S. companies this year. Indeed, U.S. foreign affiliate income earned in Europe has rebounded sharply in 2025, with affiliates earning a total of $182.4 billion in the first half of this year, a near 11% increase from the same period a year ago. Annualized, income from Europe (an estimated $364 billion) could easily outpace the previous record high of $327 billion earned in 2023. In the first half of this year, Europe accounted for 62.5% of total foreign affiliate income.

By the same token, the combination of a weak dollar and a strong euro, pound, and Swiss franc has weighed on the earnings of European firms operating in the United States. So too have higher U.S. tariffs on several European goods. Income earned in the U.S. dropped by 9.1% in the first half of the year. Stronger currencies and higher U.S. tariffs have combined to produce a powerful headwind to European affiliate income.

In the first half of this year, Europe accounted for 62.5% of total foreign affiliate income for U.S. companies.

Transatlantic Foreign Affiliate Income, 1H 2025

USD Billions

	U.S. Income Earned in Europe	YoY (%)	European Income Earned in the U.S.	YoY (%)
2020	250.7	-	98.3	-
2021	303.5	21.0%	180.9	84.1%
2022	311.9	2.8%	185.4	2.5%
2023	327.5	5.0%	176.4	-4.8%
2024	325.7	-0.5%	204.3	15.8%
1H 2025	**182.4**	**10.7%**	**95.0**	**-9.1%**
2025*	**364.8**	**12.0%**	**190.0**	**-7.0%**

*Annualized using 1H 2025 data. Source: Bureau of Economic Analysis.

A Mad Scramble: How Companies Are Adapting to the New Era of Turbulence

U.S. and European multinationals have deployed various tactical and strategic responses to the spike in tariffs and the subsequent jump in business costs and profits squeeze. Many firms have adopted multiple strategies – absorbing, for instance, some of the cost of tariffs themselves, while passing on some costs to end users or customers.

Other strategies include increased stockpiling; delaying shipments; accelerating import deliveries; reconfiguring logistic and supply chain connection points; renegotiating with suppliers to reduce input costs; and reengineering products to reduce content from materials subject to tariffs. Longer-term, firms are diversifying their supply chains, postponing or cancelling planned investments, or localizing production.

In the end, when adapting to the new transatlantic business climate, there has not been a "one-size-fits-all" strategy given that each company faces its own set of risk factors when it comes to protecting profits and market share. The mad scramble to adapt will continue over the foreseeable future.

When adapting to the new transatlantic business climate, there has not been a "one-size-fits-all" strategy

The Bottom Line

The transatlantic partnership is facing a significant stress test. As we outlined in our annual report (*The Transatlantic Economy 2025*), 2025 is a year of peril and promise. The near-term outlook is for more volatility and choppiness in trade and investment flows against a backdrop of heightened policy uncertainty.

While transatlantic business continues – trade and investment flows are becoming thicker – that alone is no guarantee of stability. As a new global economic order unfolds, U.S. and European linkages remain deep and mutually beneficial. No bilateral economic relationship is as important to the interests of both the United States and Europe. To preserve these mutual benefits, the two sides must stay vigilant, working together to ensure transatlantic turbulence does not escalate any further.

Notes

The views expressed in this publication belong to Daniel S. Hamilton and Joseph P. Quinlan, President and Senior Fellow, respectively, at the Transatlantic Leadership Network, and do not necessarily represent those of AmCham EU.

Most data used in this publication are from the U.S. Bureau of Economic Analysis and are therefore presented in U.S. dollars.

Throughout this publication, the term "EU" refers to all 27 member states of the European Union. The term "Europe" in this report refers to the following: all 27 members of the European Union plus Albania, Andorra, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Gibraltar, Greenland, Iceland, Kazakhstan, Kosovo, Kyrgyzstan, Macedonia, Malta, Moldova, Monaco, Montenegro, Norway, Russia, San Marino, Serbia, Switzerland, Türkiye, Tajikistan, Turkmenistan, Ukraine, the United Kingdom, Uzbekistan, and Vatican City.

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