1 May 2025

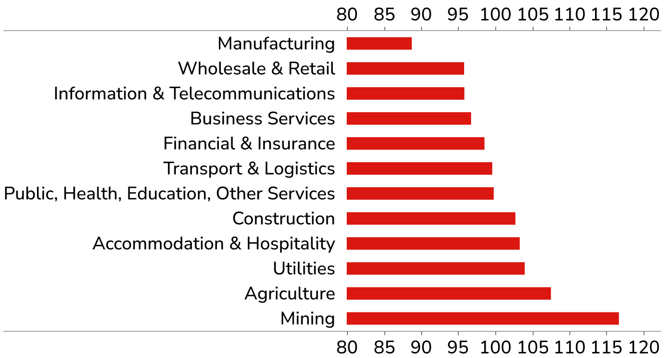
AUSTRALIAN INDUSTRY BULLETIN

Tariff Test: How Exposed Are Industries?

Key points

- The US's extreme trade protectionist policies will have ripple effects on global trade flows and prices. We expect Australian industries will show resilience. But the net impact will not be uniform.
- Based on our Industry Trade Exposure Index (Chart 1), the Agriculture and Mining sectors are well-positioned to handle the trade shock. The US is a relatively small market for these Australian exporters who can also redirect some commodity goods to other markets, albeit at lower prices.
- A 'tariff advantage', particularly vis-à-vis US exports into China, should also create opportunities. Critical minerals and the Defence industry may also benefit given China's added restrictions on rare earth exports, an increased focus on diversifying strategically important supply chains and the changing geopolitical landscape. Overall, these would have positive spillovers to Food Manufacturing, Wholesale, Construction, Professional Services and Transport & Logistics.

Industry Trade Exposure Index



*Index is a composite measure based on 10 indicators covering direct and indirect trade exposures and broader global trade risk. Index = 100 is the mean across industries. See Appendix A and B.

Source: ABS, OECD, Macrobond, Westpac Economics

- In contrast, the Manufacturing sector is relatively more vulnerable given its potential exposure to foreign competition, US final demand and higher prices for US imports. However, the net impact will vary across subsectors. For example, specialised and high value-added manufacturing will likely be more insulated.
- Notwithstanding our constructive view of the impact on Australia industries, the risks are still sizeable. A sharper slowdown across Australia's major trading partners and/or weaker domestic demand due to global uncertainties would ultimately lead to lower GDP growth and industrial activity.

Net impact of US tariffs on industries limited but uneven

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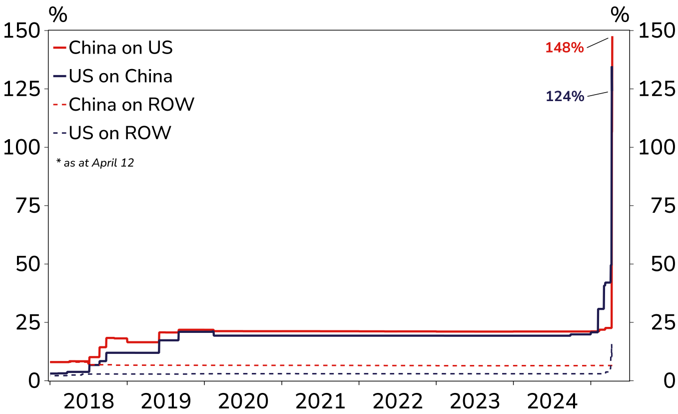
On 2nd April the US President announced 'reciprocal' tariffs across more than 160 countries, with rates starting at 10%—including those the US has a bilateral goods surplus with, such as Australia. True to the new US administration's announce-first, recalibrate-later approach, tariffs above 10% were subsequently delayed. Electronics and auto parts were also exempted. Conversely, tariffs on China were ratcheted up as high as 145%, with China retaliating by hiking tariffs to 125% and imposing several non-tariff measures (Chart 2).

Effective tariff rates



Source: PIIE, Macrobond, Westpac Economics

We assume bilateral negotiations will see tariffs for some countries lowered, but higher barriers against China will persist. Sector-specific tariffs are also expected to broaden to those deemed important to national security and industrial objectives. Indeed, semiconductors and pharmaceuticals are currently under investigation.

The economic ripples from the US's extreme trade protectionist policies will be felt through global demand, trade flows and prices. But while the risks are sizeable, we expect the net impact on the Australian economy to be small and we have only trimmed our 2025 GDP growth forecast slightly, to 1.9% from 2.2%.

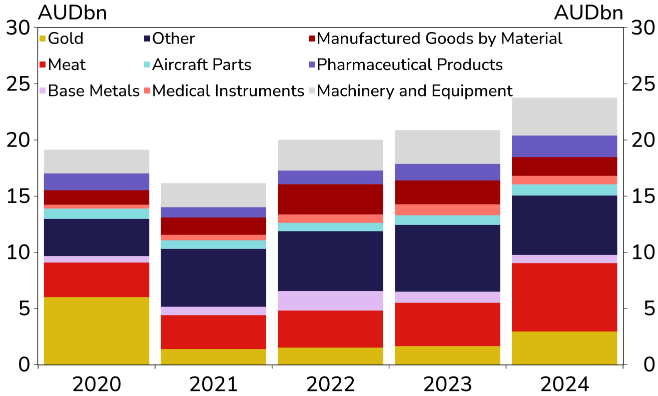
Australian industries are also expected to show resilience, but the net impact will be uneven as the trade shock brings opportunities as well as exposing vulnerabilities. To gauge industries' net exposure, we have developed an Industry Trade Exposure Index based on ten indicators looking at the direct and indirect impacts of the trade shock and external risks (Appendix A and B).

Direct Exposure to the US: Modest overall but more concentrated in some sectors

Australia's direct trade exposure to the US is modest. With services, gold and pharmaceuticals currently exempted, around 40% of total exports to the US face a 10% tariff, rising to 25% on aluminium and steel (6% of total goods).

At an industry level the story is more nuanced. Some sectors may face greater pressure from a loss of market share to US producers and/or weaker US demand. For example, beef, Australia's largest export to the US, was worth $4.4bn in 2024 with the US market accounting for around 31% of total beef exports. Pharmaceuticals are even more exposed, with around 52% of Australia's pharmaceutical exports destined to the US (Chart 3). This industry would face greater pressure from weaker US demand or lost market share if tariffs were raised

Australia Goods Exports to the US



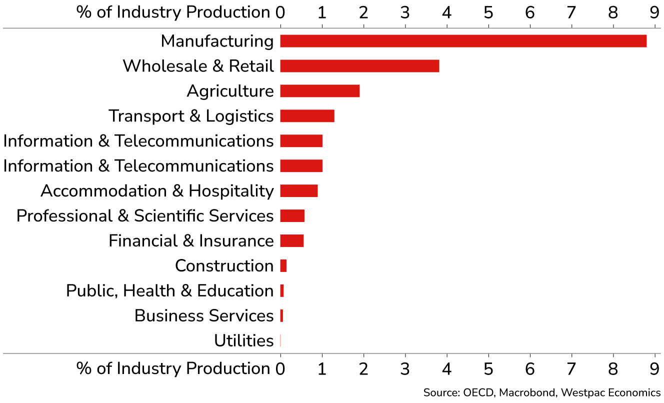
Source: DFAT, Macrobond, Westpac Economics

Similarly, looking at the share of domestic value-added in exports going to the US – the part of the gross export value that Australia suppliers are producing – it is much higher for manufacturing at around 9% of its total industry gross value added (the industry contribution to GDP) as shown in Chart 4.[1] This is above the national share of around 1% of Australian GDP and well over double the share of the next highest industry. Still, we estimate that the static direct cost of a 10% tariff across industries would be manageable particularly as there are several mitigating factors that could soften the blow.

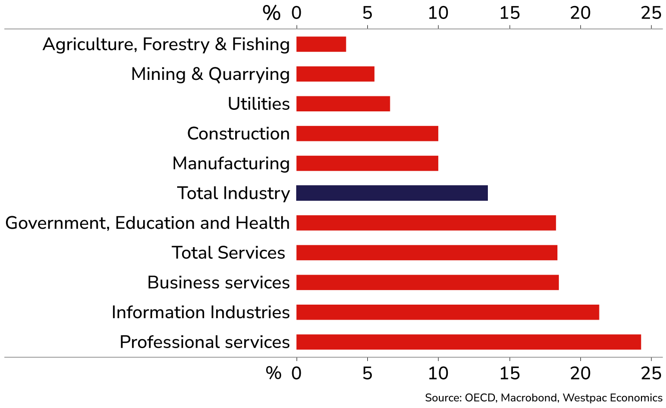
Indeed, Australian exporters could gain from a relative 'tariff advantage' over countries facing higher tariffs. Patented drugs and specialised products, such as medical instruments, may also offer few substitutes, reducing demand risk. Importantly, 'lost' exports are likely to be redirected elsewhere.

[1] For example, if Australia is exporting hats but the supplier is only adding a kangaroo badge then the value added component of the export is low.

Domestic Value Added of Exports to US



US Value Added % of Australian Domestic Demand

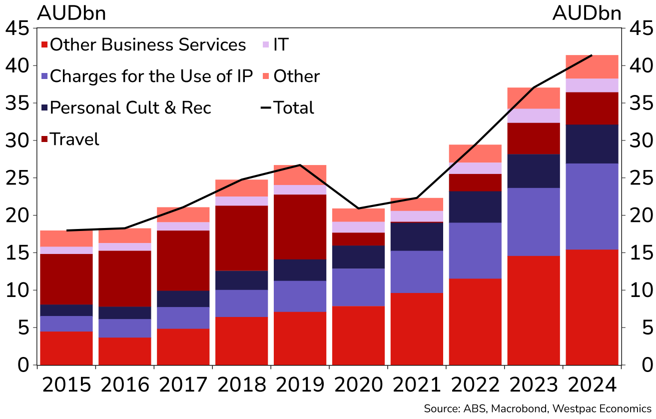


Service industries may need to absorb higher prices on US imports

Higher tariffs will lift the cost of US domestic goods. Indeed, supply chains spanning multiple countries may even widen and amplify the inflationary effects as tariffs cascade across stages of production and jurisdictions. And while the tariff impact on services prices is still expected to be smaller than for goods, they will not be immune to the broader inflationary impulse.

Where substitutes exist, Australian firms will adjust. However, in areas dominated by US suppliers such as intellectual property (~28% of service imports from the US) and IT-related services, cost increases will likely need to be absorbed (Chart 5).

Australian Services Imports from US by Category



Indeed, looking at the share of Australian production that directly uses US imports (in value added terms) to produce goods and services across the different industries, service-related industries, and in particularly professional services are nearly 7x more reliant on US imports than agriculture and mining. These sectors are also likely to have a greater share of software, consulting and IT imports (Chart 6).

Trade redirection a familiar but uneven adjustment

On net however, the direct spillovers are expected to be modest. The indirect spillovers are somewhat more complex, with pressures moving in opposing directions as tariffs reshape supply chains, input costs and competitive dynamics across industries.

For Australian exporters, success in redirecting trade will be key but given their history of adaptation there are reasons to be optimistic. During the Asia Financial Crisis and following China's restrictions on coal, wine, and beef, exporters found alternative markets with limited disruptions. We expect a similar adjustment this time even if it comes with lower realised prices.

New opportunities may even arise. Indeed, we see upside potential for Agriculture, Food Manufacturing, Mining and Defence-related sectors, with positive spillovers into Wholesale, Transport & Logistics and Construction. These opportunities are most apparent when viewed through the China–Australia–US triangle, given Australia's 'tariff advantage' over US suppliers into China.

First, comparing Australia's position against the US's top exports to China, Australia has little advantage across the largest US exports to China, such machinery and equipment and transportation items which includes very sophisticated high-end products such as commercial aircraft (Chart 7). However, Australia holds strong comparative advantages in commodities. Segments such as beef, dairy and wine, where the US faces both price and access disadvantages, present clear growth opportunities.[2] That said, competition will intensify, especially from large agriculture exporters like New Zealand and Brazil.

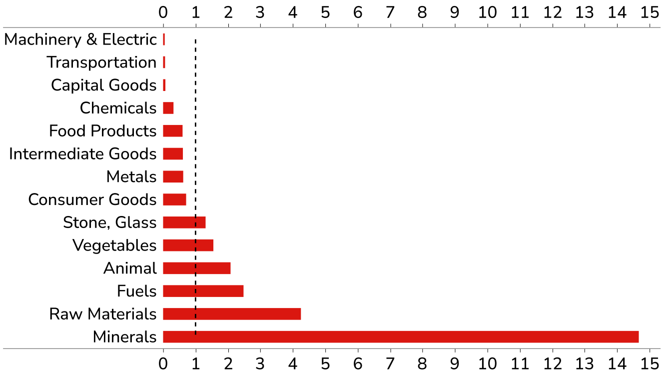
Shifting global dynamics also open the door to opportunities

Beyond the immediate trade flows, broader opportunities exist. Critical minerals and defence stand out as industries positioned to benefit from shifting global dynamics.

Critical minerals and rare earths, which are vital for electronics, EVs, aerospace and green technologies, have become central to strategic policy agendas. While Australia

[2] There have been reports that some US abattoirs' export licenses have not been renewed

Revealed Comparative Advantage



* >1 indicates a Revealed Comparative Advantage (RCA) in the exportation of the good, and <1 reveals little or no advantage

Source: WITS, Macrobond, Westpac Economics

is a significant supplier of these minerals it lacks downstream processing capacity, which is heavily concentrated in China.[3] Efforts to reduce reliance on Chinese processing is already underway across many economies, but the latest restrictions by China on these goods to the US further highlights countries' supply chain vulnerabilities. Under its Critical Minerals Strategy initiatives such as Future Made in Australia, the government is focused on building strategic reserves and bolstering downstream processing capabilities.[4]

High production costs, environmental considerations, long investment lags and a reliance on Chinese technology complicate efforts to build alternative supply chains. Nevertheless, heightened geopolitical tensions, particularly between China and US have made the development of an alternative Australian refining industry potentially more achievable.

Meanwhile, the US administration's step backwards from traditional military alliances, as well as its approach to the Ukraine–Russia war, has led to a global shift towards higher defence spending, providing a clear opportunity for Australia's defence industry, particularly in niche goods such as Bushmasters and the Jindalee Operation Radar Network (JORN), which Canada has already decided to adopt. Professional, Scientific, and Technical services, Transport, Equipment Manufacturing and Construction would all benefit from any further boost to this already growing sector.

Trade redirection is a two-way street

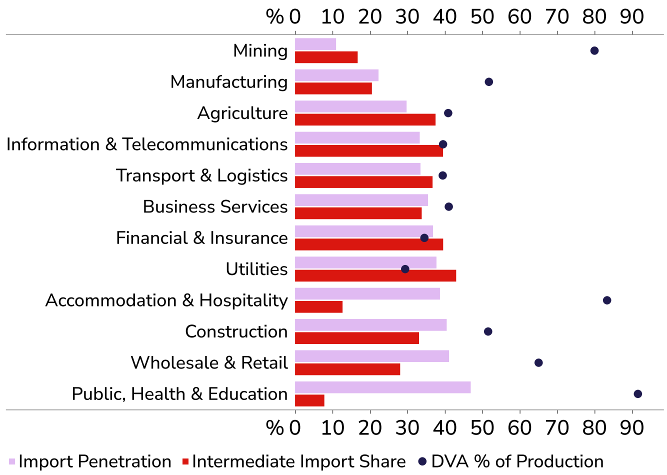
Trade diversion will not be one-way. Other exporters will also see new markets, creating both substitution opportunities and vulnerabilities depending on the industry's exposure to imported intermediate and final goods.

Three indicators – import penetration, intermediate imports as a share of production and domestic value added as a share of production– help unpack these risks. These measures reveal more than price movements: they illustrate the relative exposure and opportunity across Australia's industrial base.

These are best viewed holistically. For example, in the Public Administration, Health and Education its high import penetration reflects its heavy reliance on imported capital goods, which highlights its sensitivity to supply chain disruptions. However, the sector's exposure to foreign competition to its service delivery is negligible.

For others, a high import penetration, coupled with a high share of intermediate imports could benefit from the inflow of cheaper goods, lowering input costs inputs like fertiliser,

Import Penetration, DVA & Intermediate Import Share



Source: ABS, Macrobond, Westpac Economics

fabricated metal, tiles, and heavy machinery. For Construction and other industries facing cost pressures from wages, this imported disinflation offers material relief.

Domestic producers of products such as non-metallic minerals, wood products, and prefabricated components, will likely face intensified competition given they also have little comparative advantage on a global scale. By contrast, those with low import penetration and high domestic value added—such as Mining – will be largely insulated from these trade dynamics

External demand shock looms as key risks to industry outcomes

Ultimately, Australian industries' fortunes will hinge on the severity of the external demand shock. Our base case anticipates that the net impact for most economies, aside from the US, will be modest as most will adapt through trade diversion, fiscal and/or monetary stimulus and other policy support. However, the risks around these are unu-sually large and skewed to the downside.

A broader slowdown in global trade flows would amplify vulnerabilities for sectors dependent on export markets and integrated supply chains. Even industries positioned to benefit from trade diversion may find opportunities cur-tailed if overall demand weakens.

Here, China's outlook is critical. China absorbs around 35% of total exports but above 50% for mining, that is con-centrated in goods such as iron ore, lithium and LNG. We expect Beijing to deploy fiscal and monetary policy sup-port to shore up sentiment and domestic demand and achieve its 5% growth

[3] China accounts for between 60% to 90% of global production of refined critical minerals.
[4] Australia is a member of the US led alliance Minerals Security Partnership and Indo-Pacific Economic Framework (IPEF).

target. However, if stimulus disap-points, Australian exporters could face considerable headwinds.

Domestically, while consumer sentiment fell following the tariff announcements, to date this has not stalled the recovery real spending to the same extent. This resilience matters, particularly for industries tied to household discretionary spending.

Movements in the AUD will also matter. Traditionally the AUD acts as a risk absorber and depreciates during external shocks, improving exporters' competitiveness and helping offset weaker commodity prices. While it also puts some upward pressure on import prices, this in itself does not lead to broader inflationary pressures.

So far, its role has been stifled. After briefly dipping below 0.60 vs the USD it has since recovered and strengthen on a TWI basis. However, it is still around 3% weaker than pre-US elections. Moreover, on a real effective basis the AUD is close to historical averages, whereas the USD still looks overvalued by around 15%. Consequently, the role of the AUD at present is more neutral but will likely remain hostage to USD fortunes.

Appendix A

	Direct impact from the US				Indirect opportunitites/Challenges				External dependency				
	Share of exports to US (%)	Share of goods exports to US (%)	Domestic Value added of Gross Exports to the US share of Industry Gross Value Added (%)	Foreign Value Added used for domestic production as share of Industry Gross Value Added (%)	Revealed Comparative Advantage	Import penetration	Intermediate imports as sharew of total imports (%)	Domestic Value Added share of domestic production (%)	Share of exports to China (%)	Share of total exports to Industry Gross Value Added (%)	Overall risk score (z–scores)	Index: 100 is industry mean	Risk Category
Agriculture	5.7	9.1	1.91	3.5	1.8	29.8	37.5	40.9	31.9	33.7	0.7	107.5	Low Exposure
Mining	6.6	2.3	0.13	5.5	14.7	11.0	16.7	80.0	58	99.3	1.7	116.7	Low Exposure
Manufacturing	12.5	15.9	8.81	10	0.4	22.3	20.5	51.8	25	82.2	–1.1	88.7	Lower exposure
Utilities	1	0.6	0.01	10	NA	33.5	36.7	39.4	22	0.6	0.4	104.0	High Exposure
Construction	9.8	NA	0.15	6.6	NA	40.5	33.1	51.6	18	1.8	0.3	102.7	Mild exposure
Wholesale and retail	13.9	NA	3.82	10	NA	41.1	28.1	65.1	20.8	29.8	–0.4	95.8	Mild exposure
Acc. & hospitality	6.1	NA	0.90	NA	NA	38.7	12.7	83.3	38.1	16.3	0.3	103.3	Moderate exposure
Transport & Logistics	7.9	NA	1.30	NA	NA	33.5	36.7	39.4	26.3	19.4	0.0	99.6	Mild exposure
Info and telecomm.	7.2	NA	1.01	21.3	NA	33.3	33.5	39.5	20	15.5	–0.4	95.8	Mild exposure
Fin. & insurance	14.9	NA	0.56	NA	NA	36.8	39.6	34.6	7	3.9	–0.1	98.5	Moderate exposure
Business services	11.7	NA	0.15	18.5	NA	35.5	33.8	41.1	21	38.0	–0.3	96.7	Mild exposure
Public, Health, Education	1.7	NA	0.08	18.3	NA	46.9	7.8	91.6	63.6	3.7	0.0	99.8	Moderate exposure

Source: Bloomberg, Westpac Economics.

Appendix B: Composition of Trade Exposure Index

Our Trade Exposure Index uses a range of indicators, grouped into three main criteria to assess the potential opportunities and challenges facing Australian industries to the US led trade shock. These indicators are then standardised using z-scores, which capture how far an industry is above or below the mean for a given indicator. The weighted sum of the indicators is indexed to 100, where 100 is the mean across all industries.

The index cannot consider all factors governing the exposure of industries, and at a more granular sectoral and firm level the exposures will be more nuanced. However, it provides a useful starting point to consider the potential winners and losers.

Direct exposure

- % of exports to the US: measures the share of total exports that go to the US. This measures the industry's dependency on the US as an export market.
- Domestic Value Added (DVA) of gross exports by industry to the US as a share of industry Gross Value Added (GVA): The DVA is the part of gross exports value that Australian production contributes. A higher share means that the industry faces more US demand risk.
- Foreign Value Added as share of industry output: A higher FVA share indicates that sectors are more dependent on foreign inputs and vulnerable to cost pass throughs or supply disruptions. Lower FVA shares mean the industry is more domestically integrated.

Indirect Opportunities/Vulnerabilities

- Revealed Comparative Advantage: is the ratio of Australia's share of global exports of a particular product to its share of total global exports. It highlights a relative sector's strength with a RCA>1 indicating a relative specialisation in the product.
- Import penetration ratio: imports/(production plus imports less exports). This approximates the share of apparent domestic consumption supplied by imports. It is used to assess exposure to foreign competition or vulnerabilities to supply chain disruptions.
- Intermediate imports as % of total imports: measures the proportion of an industry's total imports that are used as intermediate inputs in production rather than final demand. A higher share indicates that imports are primarily feeding into domestic value chains rather than competing with domestic producers.
- Domestic Value Added share of domestic production (%): measures the extent to which domestic inputs contribute to an industry's total output. A higher DVA share indicates localised production and in this index, less vulnerability to foreign competition.

External dependency

- Share of exports to China (%): measures the portion of total exports to China.
- Share of total exports to Industry Gross Value Added (%): measures how export dependent each industry is.

Industry construction

Trade and input-output data is mapped to industry ANZSIC groupings using ABS concordance files where required.

Industries are grouped to align closely with OECD TIVA data, and where necessary, ABS industry divisions are recoupled to similar economic roles (public/household-facing, low export share).

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