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North American Automotive Industry Faces Unprecedented Challenges as Tariffs Loom, according to S&P Global Mobility

Even with monthlong reprieve, potential 25% tariffs threaten to increase consumer prices and disrupt production and sales across key markets

SOUTHFIELD, Mich., Feb. 4, 2025 /PRNewswire/ -- The North American automotive industry is bracing for significant disruptions as the U.S. government has announced potential tariffs of up to 25% on imported vehicles from Canada and Mexico, and 10% for vehicles mainland China, while components and EVs already are under tariffs of 25% and 100% respectively.

> The proposed tariffs could not only inflate vehicle prices but also disrupt production schedules, says Michael Robinet

This decision comes amidst ongoing trade negotiations, with tariffs for Canada and Mexico temporarily delayed, but uncertainty remains.

In 2024, the U.S. imported some 3.6 million light vehicles from Canada and Mexico, representing 22% of all vehicles sold in the U.S. Mexico is currently the largest source of U.S. light vehicle imports, passing Japan, South Korea and all of Europe. S&P Global Mobility estimates that about 54% of U.S. light vehicle sales were produced in the U.S., 15% in Mexico and just under 7% from Canada in 2024.

According to the latest S&P Global Mobility analysis, if these tariffs are implemented, a 25% duty on the average $25,000 landed cost of a vehicle from Mexico and Canada could add up to $6,250 to the price of a new vehicle, according to S&P Global Mobility estimates, and importers are likely to pass most, if not all, of this increase to consumers. With average vehicle prices near all-time highs, this additional tariff would put further strain on affordability for consumers in an already volatile time.

If components and parts are also subject to the 25% tariff, vehicles produced in the U.S. with any components sourced from Canada or Mexico would also see costs rise by 25%. Given the free flow of components across borders, the tariffs would impact most vehicles produced in the U.S. as well.

"The automotive industry is at a critical juncture," said Michael Robinet, vice president of forecasting at S&P Global Mobility. "The proposed tariffs could not only inflate vehicle prices but also disrupt production schedules, with estimates suggesting a potential 30% decrease in production for high-exposure vehicles once tariffs are enacted, even if only for the short-term. This will lead to ripple effects across the supply chain, impacting OEMs, suppliers and, ultimately, consumers."

Following the 30-day negotiated reprieve, S&P Global Mobility's latest analysis indicates a 30% probability of an extended disruption lasting six to eight weeks, during which automakers may slow or halt production of vehicles that would be impacted; those produced in Canada and Mexico. As OEMs look to protect profitability, they may conserve inventory and limit discounts and incentives, further straining consumer access to affordable new vehicles. However, with a six-to-eight-week disruption, most sales and production losses could be recovered within 12 months, according to the analysis.

The more dire scenario is a Tariff Winter. S&P Global Mobility currently anticipates this as a 10% probability. In this case, tariffs of 25% on Mexico and Canada would be integrated long-term into the auto trade structures, creating an environment of sub-optimal sourcing as vehicles and components produced in Mexico and Canada are currently in those locations because it does create an optimal scenario.

Working to move that production to the U.S. to avoid the tariff also increases the cost of labor for manufacturing, as well as the potential to further exacerbate a general labor shortage. Though in a Tariff Winter we would expect to see re-sourcing occur, due to the sub-optimal sourcing, North American light-vehicle sales could decline by 10% for several years with a long-term decline in competitiveness. Specifically, the decline is likely to be 10% in the U.S. 8% in Mexico and 15% in Canada in this scenario.

"With both Mexico and Canada able to delay implementation untilMarch 1, activities to adjust trade structures with the European Union, the United Kingdom, Japan and South Korea may be a new focus and arrive this spring," saidStephanie Brinley, associate director at S&P Global Mobility and contributor to this analysis.

In addition to immediate impacts, the uncertainty surrounding these tariffs creates a situation in which investment decisions face increased risk. This is likely to delay the development of future vehicle programs, particularly in light of evolving emission and fuel economy regulations. The automotive sector is urged to prepare for potential short-term disruptions, including production halts and supply chain bottlenecks. The uncertainty is also expected to be weighing on consumers, who may be more circumspect about near-term discretionary purchases.

For additional details and insights from the S&P Global Mobility team, today's full analysis **can be found here**.

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Editor's Note: *S&P Global Mobility analysts are available for interviews and additional commentary as the situation continues to develop. Please reach out to Michelle.Culver@spglobal.com to arrange an interview.*

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