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Automotive Advisory Group

THE RIPPLE EFFECT OF TARIFFS: INSIGHTS ON THE AUTOMOTIVE SECTOR

JULY 2025

How Will Domestic and Foreign Automakers Respond to Tariffs?

WHAT DO WE KNOW AND WHAT CAN WE EXPECT?

The key goal of the implemented 25% tariff on imported vehicles and auto parts is to increase domestic production and job creation in the U.S. automotive sector. The new levy on cars will vary not just by automaker and country or origin, but also the type of vehicle purchased. Top non-domestic car importers include Toyota (657,000), Mazda (640,000 cars), and Hyundai (600,000 cars). In total, there were $219.5 billion worth of cars imported to the U.S., a 4.4% annual increase. Much of the imports originated in Mexico, Japan, and South Korea as these three nations totaled $128.8 billion, or 59% of the total.

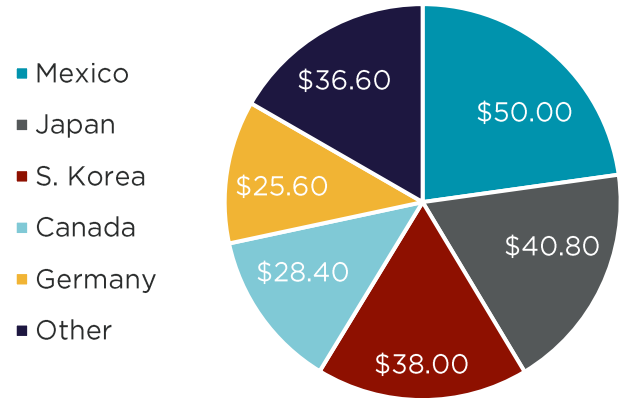
According to Insurify, price escalations will vary (3% to 22%) by car manufacturer with the highest increases expected for Buick (22%), Hyundai (22%), Kia (21%), BMW (19%), and Mazda (19%). Conversely, as Tesla produces their vehicles within the U.S. and sources much of the parts domestically, prices are anticipated to only climb 3%. Ford recently announced it would be raising prices on three different models which are produced in Mexico. Meanwhile, Cox Automotive reported that some typically lower priced vehicles (compact cars and smaller SUVs) will see some of the most significant price impacts, ranging from 14% to 17%. Mid-sized and full-sized SUVs are expected to see just 2% to 4% rises in pricing.

The supply chains for both cars and auto parts rely on highly integrated global supply chains with auto parts sometimes crossing borders more than once before the final assembly of vehicles. If these tariffs remain long-term, it will likely lead to increased production costs, delays, shortages of parts. The bulk of auto parts are imported through Mexico, which accounted for 40% ($81.2 billion) of the 2024 imported total. Higher car prices, the fluid and volatile tariff environment, and inflationary atmosphere will likely lead to a decline in automotive purchases by the U.S. consumer. Also, automakers could limit the number of models available in the U.S. if some imports become unprofitable.

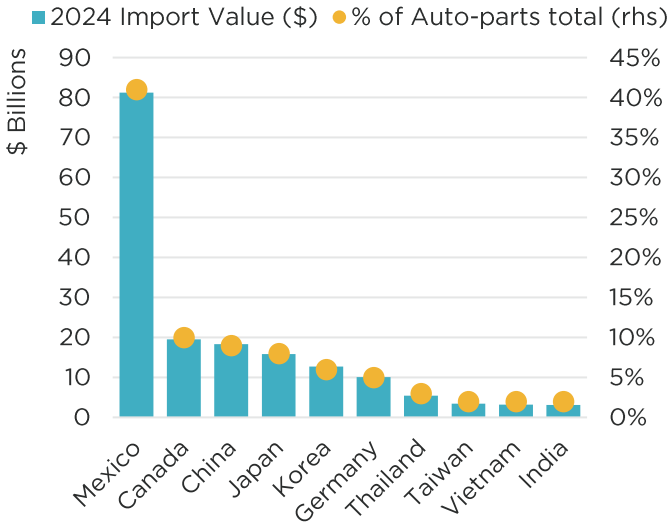
TARIFFS AND ELECTRIC VEHICLES (EVs)

The new 25% tariffs on imported vehicles will surely affect the EV marketplace. In 2024, 65% of the EVs sold in the U.S. were assembled domestically while 22% were manufactured elsewhere (excluding non-USMCA countries). While pricing for EVs will climb, those which are produced within the U.S. or with localized supply chains will be less affected, especially those who source parts made domestically. Impacts will largely depend on where batteries are produced as the battery constitutes the largest percentage of the vehicles production cost.

U.S. Imports (2024) – Automobiles by Country ($ Billions)

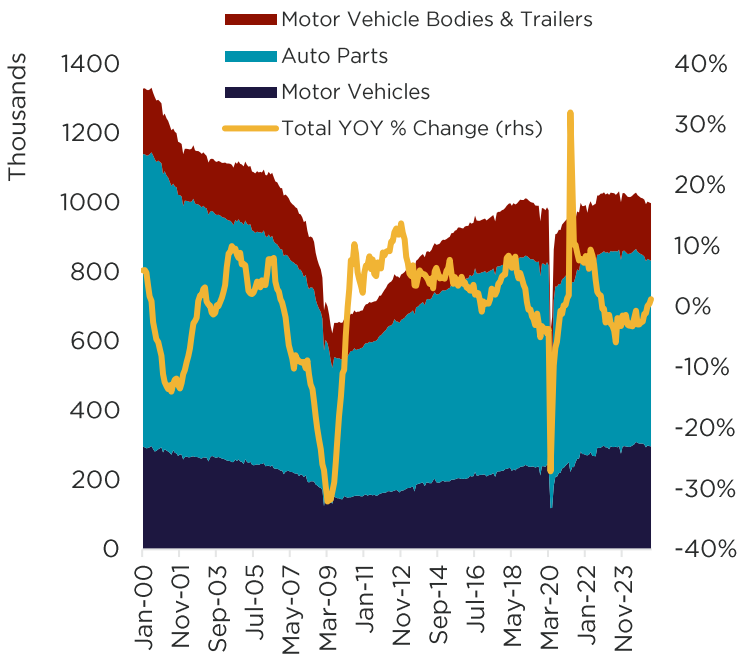


U.S. Imports (2024) – Auto-parts by Country ($ Billions)



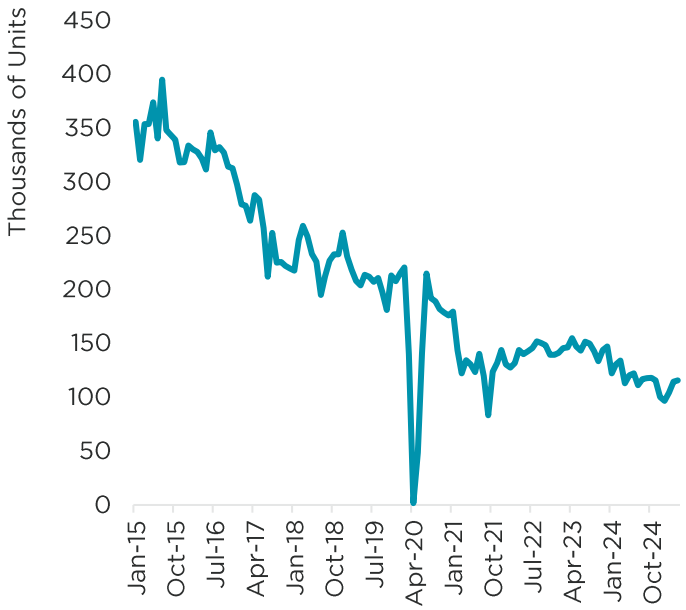
Source: U.S. International Trade Commission, U.S. Department of Commerce, U.S. Census Bureau

U.S. Auto Manufacturing Employment



Source: Moody's Analytics

U.S. Auto Production



Source: U.S. Bureau of Economic Analysis

EFFECTS ON PROPERTY

Domestic auto manufacturing is concentrated within a few key regions in the U.S., often termed the "Auto Alley" (stretching from the Great Lakes to the Gulf of Mexico). The Midwest has the highest concentration of car manufacturing in the nation, specifically Michigan, Indiana, and Ohio. These areas not only boast major manufacturing plants for cars but also have a vast ecosystem of parts suppliers and industries which rely on the auto industry. Some states further south have seen an increase in investments by foreign auto companies due to incentives, cheaper labor and operational costs. Georgia, Alabama, Tennessee, and Kentucky have an automotive presence. Meanwhile, Texas has assembly plants for GM and Tesla while South Carolina has become a hub for foreign automakers like Volvo and BMW.

A crucial economic and policy consideration for the automotive manufacturing landscape is the substantial 4.5 million units of unused production capacity in U.S. automotive plants in 2024. If this surplus capacity is used in response to tariff related onshoring, the resulting industrial absorption is likely to occur in areas adjacent to existing assembly plants as suppliers increase parts production to feed those existing assembly plants

A decline in auto production or imports could lead to a significant decrease in auto-related employment in these states which in turn would likely cause some of these manufacturers to reduce their space footprints for both production and distribution. Manufacturing employment for auto parts and motor vehicles have declined since late 2024 while year-over-year changes for auto-related manufacturing has remained slightly negative since mid-2023.

RECENT AUTO MANUFACTURING NEWS

- Honda recently announced that it will be moving production of its compact SUV (CR-V) from Canada to the U.S. while pausing an $11 billion planned investment for EV production expansion in Ontario, Canada.
- In May, Volvo announced cuts to 5% of its workforce at its Charleston, South Carolina assembly plant due to the high imposed tariffs.
- General Motors increased production of its full-sized trucks at one of its U.S. plants with plans to shift more production to the U.S. to mitigate costs of tariffs on both vehicles and parts.
- Toyota opened its $14 billion automotive battery manufacturing plant in North Carolina in the first quarter. This facility will produce batteries for its hybrid electric vehicles, plug-in hybrid electric vehicles, and battery electric vehicles.
- Hyundai Motor Group will invest $5.8 billion to create its first North American steel production facility in Donaldsonville, Louisiana. The 1,700-acre site is expected to product 2.7 million metric tons of steel annually, primarily used for Hyundai and Kia's U.S. automotive plants.

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