Automotive Industry

Chicken tax 2.0 goes whole hog - 25% tariff reality sets in

Industry Overview

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Equity
Global
Autos/Car Manufacturers

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Trump announces tariffs for light vehicles and some parts

On 3/26, President Trump said the US will impose a 25% tariff on imported cars and light trucks, effective April 3. Around 7.6mm light vehicles are imported annually. That said, the tariffs won't apply in full to all imports as those compliant with the USMCA agreement will be given the opportunity to certify their US content and the 25% tariff will only apply to the value of non-US content. This will materially lower the tariff on the ~4mm vehicles imported from Canada and Mexico. The fact sheet published by the White House also notes that a 25% tariff will apply to key auto parts including engines, transmissions, powertrain parts, and electrical components. There is potential for tariffs to be expanded to other auto parts as well. USMCA-compliant parts will be allowed to enter tariff-free until a process is established to apply tariffs to non-US content.

Ford relatively benefits, GM may need to re-balance

Ford is relatively less affected and may even benefit as it only imports a few models, which account for a modest 20% of its total volumes. GM appears relatively exposed to the tariffs as it imports 49% of its vehicles. Meanwhile, other OEMs with sizable import exposure to the US include Tata (Jaguar/Land Rover), Geely, Mazda, VW, Hyundai/Kia, Daimler, Nissan, BMW, Toyota, Stellantis, Subaru, and Honda (Exhibit 1).

Impacted vehicle prices could climb as much as $10k

Based on our analysis, vehicle prices could increase as much as $10k, if OEMs pass on the tariffs in full to consumers on impacted vehicles. This assumes an EBIT margin of ~10% is maintained, vehicles sell at an ATP of $48k, and we then apply the 25% tariff. However, we don't expect consumers would absorb the price increase in full. Importing OEMs are more likely to sell vehicles at breakeven until they rebalance the production footprint, and we estimate the resultant price increase would still be meaningful at $4.5k. The higher pricing umbrella could be positive for lesser impacted OEMs such as Ford, as it could enable them to raise price and/or gain share.

Risk to auto sales & production could be in millions

We estimate that if OEMs were to pass through the entire 25% tariff cost, then the amount of vehicles that would be lost at a base trend level of sales of ~16mm units would equate to about 3.2mm units (~20%). In a less severe scenario where OEMs target breakeven profit, 15% of the tariff costs would be passed through, and lost volume would equate to about 2.5mm (~15%). There is the more extreme scenario that there is no ability to pass through the tariff and the 7-8mm imported vehicle sales drop to zero, but we believe this is unlikely. Please see Exhibit 2 for more detail.

We discuss additional points below.

Acronyms:

ATP: Average transaction price
D3: Detroit Three (GM, Ford, Stellantis)
OEM: Original equipment manufacturer
SAAR: Seasonally adjusted annualized rate
USITC: US International Trade Commission
USMCA- United States-Mexico-Canada Agreement

Refer to important disclosures on page 5 to 7. Analyst Certification on page 4. **12810310**

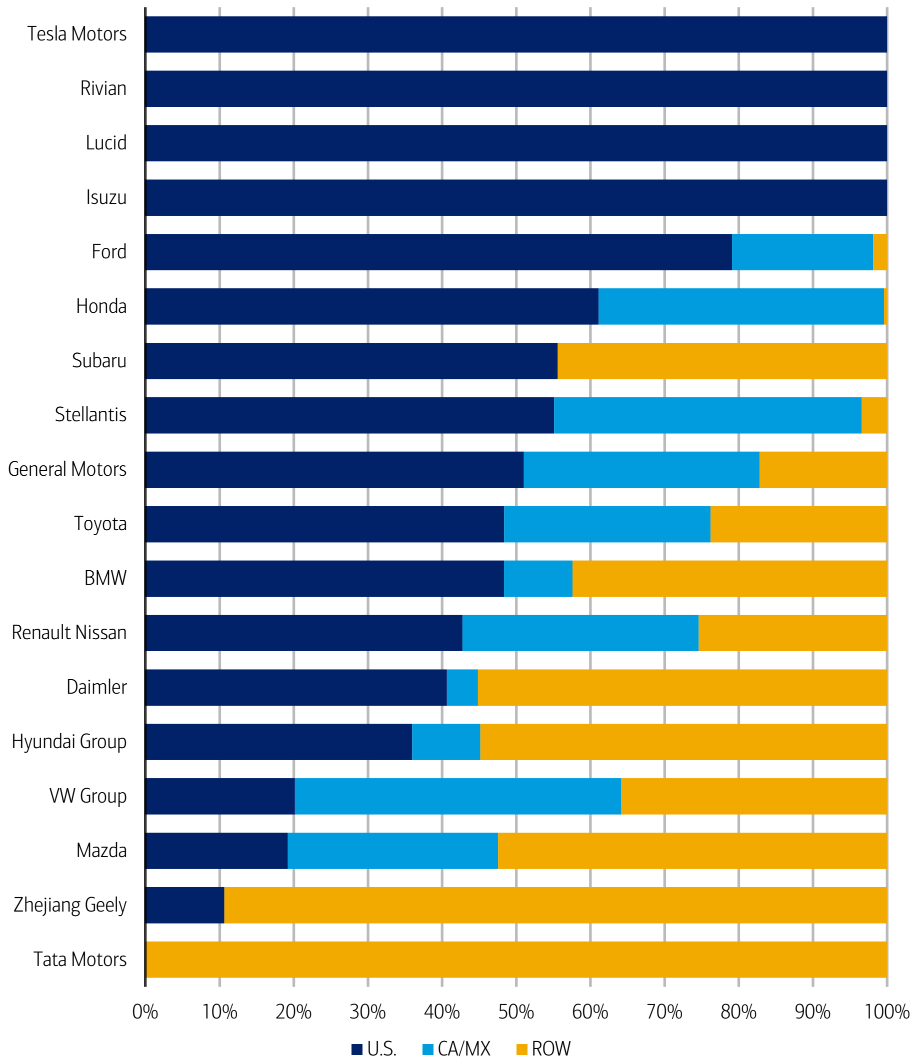
Timestamp: 27 March 2025 05:00AM EDT

Expect flurry of requests for exemptions; Other trade-offs

Given the meaningful impact of the tariffs across the automotive industry and broader economy, we expect a flurry of activity to the latest announcements from companies, governments, industry lobbyists and other parties. Japan has already requested an exemption and others are likely to follow in short order. In the end, the Trump Administration could provide some relief. However, we believe the Administration has incentive to implement the tariffs to obtain leverage in negotiations. If this is the case, then the tariffs may still be temporary. While this will create leverage with countries including Canada, Mexico, Japan, Germany, and Korea, among others, the Trump Administration would also like to show progress in getting a portion of the ~7.6mm imported vehicles to be produced in the US. This could mean about 30 production plants, ~105k direct jobs, and potentially over 1mm total jobs. As mentioned earlier, the tariffs become effective April 3… there is only one week left to negotiate.

Exhibit 1: US sales for each OEM by origin of production

Tesla, Rivian, and Lucid are the only OEMs that produce all of their vehicles sold in the US in the country. All other manufacturers sell at least a portion of their vehicles in the US that have been assembled abroad. We note that of the OEMs covered, Ford is relatively well positioned while GM will have a lot of rebalancing to do.



Source: Wards, BofA Global Research

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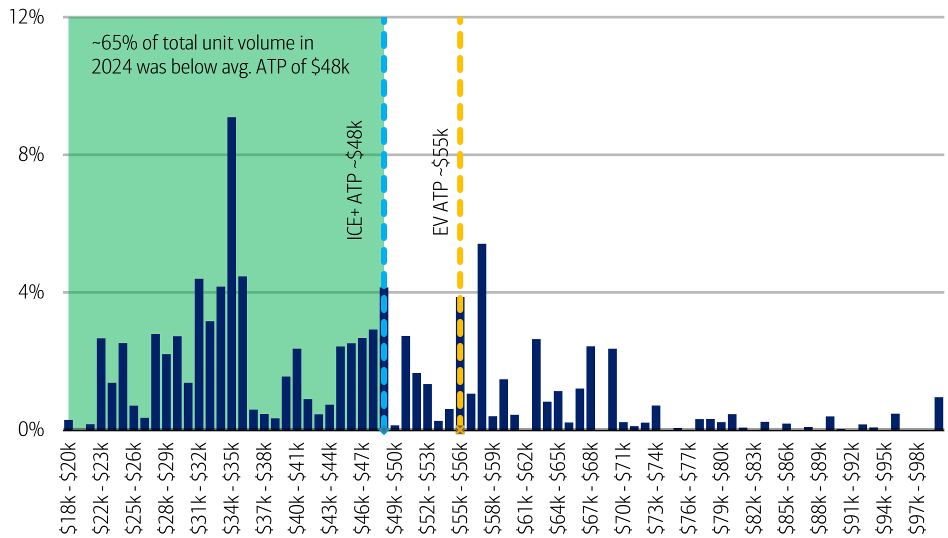
Based on our analysis of the US market by volume weighted price point distribution, we estimate roughly 65% of all new vehicle sales in 2024 transacted below the industry ATP of ~$48,000. When taking the announced tariffs into account, a material portion of the market is likely to shift to above that $48k price point, all else being equal. We estimate that if OEMs were to pass through the entire 25% tariff cost, then the amount of vehicles that would transact below $48k would decrease to ~44%. At a trend level of sales of ~16mm units, this would result in ~3.2mm units (~20%) getting pushed out of the market. In a less severe scenario where OEMs target break-even profit, 15% of the tariff costs would be passed through, ~50% of vehicles would transact below $48k. This would result in about 2.5mm (~15%) units getting pushed out of the market at trend level sales. Of course, there is the more extreme scenario that there is no ability to pass through the tariff and the imported vehicle sales drop to zero, but we believe this is unlikely.

Exhibit 2: Estimated vehicle price distribution weighted by volume of US sales (2024)

As of 2024, we roughly estimate ~65% of new vehicle units sold in the US were at an MSRP below the industry average transaction price of ~$48,000



Source: Company websites, Wards, BofA Global Research

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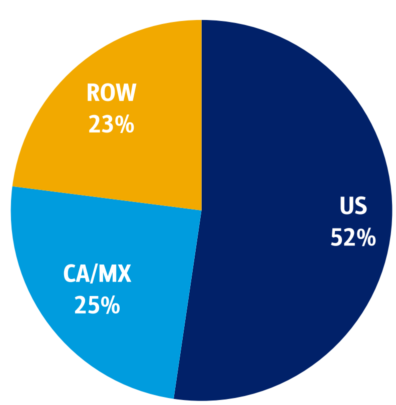
Exhibit 3: Of the 15.8m light vehicles sold in the US during 2024, 48% were produced abroad

We estimate that only 52% of the vehicles sold in the US were produced in the country, while 25% and 23% were produced in Canada/Mexico and the rest of the world respectively.



Source: Wards, BofA Global Research

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