Tariffs poised to shake up auto sector dynamics

Deloitte Commentary: Q1 2025 MEMA OE Automotive Supplier Barometer

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The impact of tariffs on an integrated North American vehicle manufacturing sector is expected to be swift. According to GlobalData, close to half (47%) of the light vehicles sold in the U.S. last year were produced in other countries, including 23% from Canada and Mexico.[1] Many auto companies are already feeling the pressure associated with the 25% tariffs currently applied to imported steel and aluminum.[2]

Although some vehicles and components covered under the existing USMCA trade deal remain temporarily exempt from tariffs, the auto industry faces uncertainty around the upcoming renegotiation of the agreement.

In response, some original equipment manufacturers (OEMs) and suppliers have been stockpiling parts as a hedge against near term exposure to higher input costs.[3] However, in an ecosystem that has evolved for decades around a 'just-in-time' production ethos, the extent to which companies can increase parts inventory in the near term to address potential cost increases may be challenging.

Some companies may be looking to pass the cost of tariffs on in the form of higher vehicle prices, but consumers are already facing affordability concerns.

Although pricing for new vehicles has moderated in recent months it remains elevated,[4] leading to a disconnect between consumer expectations and the reality of current market conditions. According to our [2025 Global Automotive Consumer Study](), nearly three quarters of U.S. new vehicle intenders expect to pay less than $600 per month for their next vehicle, but average payments were already $748 per month in February 2025.[5]

Along with delaying program launches, automakers and suppliers may also be looking to flex their U.S. manufacturing footprint to absorb some level of production from plants in Canada or Mexico. However, this is likely to be a longer-term strategy since executing a reshoring initiative in the automotive manufacturing sector may require, multi-year investments[6] that will need to be balanced against other investments on a variety of fronts, including electrification, software defined vehicles, and AI-enabled shared mobility.

Having said that, tariffs may be changing longer term capital investment strategies as manufacturers look to manage the risk of uncertainty in their supply chains by focusing on building their U.S. footprint.[7] However, automation may impact the creation of additional manufacturing jobs.

Shifting any manufacturing jobs back from other markets, like China or Mexico, will require various considerations, such as labor costs and profitability.[8] In this scenario, it is possible that at least some of the incremental cost would be passed onto the consumer, potentially placing more downward pressure on new vehicle demand in the longer term.[9]

Against this background, results from the 2025 Q1 MEMA OE Supplier Barometer suggest a continued decline in supplier sentiment, with the Supplier Barometer Index (SBI) falling to 29 from 36 in the previous quarter. This marks twelve consecutive quarters of increasing pessimism. The biggest concern among respondents to the latest MEMA member survey was changes in government trade policies, particularly related to tariffs and the upcoming renegotiation of the USMCA agreement.

In addition to changes in government trade policy, suppliers also expressed concern over sales of vehicles in programs supplied, particularly battery electric vehicles (BEVs) where uncertainty also extends to program profitability and renewed cost pressures. In fact, over half of survey respondents (52%) believe it will take more than 10 years for electric vehicles to reach 25% of total light vehicle production in North America.

As inventories build, concern over carrying costs is one of the top issues facing suppliers over the coming 12 months. Sub-tier supplier financial distress tops the list of external issues identified by respondents as the threat of rationalization in the face of mounting pressure looms large for smaller companies unable to weather current conditions. There is also significant concern regarding stranded capital due to changes in the regulatory landscape and underperforming programs. In response to these challenges, supplier respondents are attempting to negotiate with customers, rethinking capital expenditure strategies, and seeking new business opportunities to reallocate capacity.

Survey respondents estimate the breakeven point for light vehicle production is 14.0 million units, with the most recent forecast from GlobalData suggesting North American output will reach 15.4 million units this year.[10] Despite economic and policy uncertainty, MEMA survey results also suggest suppliers remain largely committed to R&D investments over the next 2-3 years with advanced materials topping the list of investment priorities.

While the automotive industry is facing a range of challenges, suppliers can navigate the complexities of rapidly changing market conditions by developing agile strategies that pivot on a strong commitment to innovation and collaboration. As the industry continues to evolve, suppliers will seek to strike an effective balance to mitigate risk while looking to seize strategic opportunities through bold investment. Those companies that can achieve this balance could be better positioned for growth in the coming years.

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Endnotes

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