# The impact of uncertainty on auto suppliers

## Deloitte Commentary: Q2 2025 MEMA OE Automotive Supplier Barometer

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Uncertainty continues to obfuscate the global trade landscape, often the focus of conversations across the automotive value chain. Estimates for annual light vehicle production in North America have dropped significantly since March when forecasters expected assembly activity to top 15.3 million units.[1]

Fast-forward three months and the forecast has been pulled back to 14.5 million units,[2] a drop of nearly a million units from last year. Although Mexico is likely to be the biggest contributor to that decline in volume, the Canadian light vehicle manufacturing sector is expected to experience the largest drop on a relative basis, sliding 11.5% year-over-year.[3]

A near-term pullback is also expected in the U.S. as light vehicle production is likely to drop nearly four percent this year.[4] Although the near-term picture is somewhat negative, the production outlook is expected to improve to 14.8 million units next year, eventually reaching 16.4 million units by the end of the decade.[5]

Trade policy uncertainty remains top of mind for automotive suppliers as they rank the various challenges to the industry over the coming 12 months, according to the 2025 Q2 MEMA OE Suppliers Quarterly Barometer Survey. Nearly half the respondents believe the changing nature of trade policy represents the greatest near-term challenge to their business. Other challenges include 'poor sales of vehicles for programs supplied' and potential weakness in the U.S. economy.

Trade policy uncertainty and slowing battery electric vehicle (BEV) demand[6] could also be a concern regarding downward pressure on capacity utilization as 42% of MEMA survey respondents said their utilization decreased over the last three months. At the same time, only 15% of respondents said their capacity utilization increased, leaving nearly half of suppliers unchanged. It can be a challenge for some suppliers to quickly shift production plans, often resulting in substantial margin pressure. In an effort to manage negative effects of significant fluctuations in utilization, 47% of survey respondents implemented flexible labor and operations strategies over that time period. However, the number of options available to smaller suppliers may be limited, which could lead to a heightened risk of supply chain destabilization.[7]

On the other hand, suppliers continue to look for longer-term productivity gains as 68% of survey respondents view automation and robotics as a moderate/significant opportunity followed by advanced materials and processes (65%), and hybrid powertrains (54%). Despite the declining momentum for BEV demand,[8] expectations for hybrid vehicle sales in the U.S. continue to grow. In fact, industry forecasters expect hybrids to account for 20% of overall light vehicle sales this year, more than double the number of BEVs in a market expected to reach 16.1 million units.[9]

Looking at other areas of innovation, MEMA survey respondents ranked the application of artificial intelligence (AI) 4th in terms of being a moderate/significant opportunity for their business. This is perhaps connected to the fact that relatively few suppliers (13%) report having seen at least a moderate return on the investments they have made in AI implementation to date. Having said that, early AI adopters responding to the survey are seeing improvements across several aspects of their business, including product quality, process efficiency, inventory management, and supply chain optimization.

In an environment where interest rates remain elevated,[10] production volumes are under pressure, and some suppliers may have to adapt to changes in cost and complexity resulting from new tariffs, access to capital can help drive growth initiatives. For example, nearly half of MEMA members surveyed believe their capital requirements to support M&A activities will somewhat/significantly increase in the next fiscal year.

Having said that, only 57% of respondents are at least somewhat confident they will be able to access capital at an appropriate cost to drive inorganic growth opportunities. In addition, 40% of respondents feel their free cash flow performance has had either a moderate or substantial role in hindering their ability to support capital requirements for new products. This can be a challenge for suppliers in competition to secure new business.

Uncertainty appears to be weighing on suppliers as they look to the future. In fact, the percentage of survey respondents that are significantly more pessimistic regarding the outlook for their business has increased from 17% in last quarter's results to 25% in the latest report. Indeed, over the past three months, two thirds of light vehicle suppliers have gotten at least somewhat more pessimistic about their 12-month outlook. Suppliers that have been able to navigate the uncertainty may have a stronger foundation and a clearer path to growth, buttressed by innovative tools and processes.

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## Endnotes

[1] GlobalData North American Light Vehicle Production Forecast.
[2] GlobalData North American Light Vehicle Production Forecast, June 2025.
[3] Ibid.
[4] Ibid.
[5] Ibid.
[6] Robert Walton, US electric vehicle sales are slowing amid policy shifts: BNEF, Utility Dive, June 18, 2025.
[7] Kurt Nagl, Bosch stays steady amid tariffs, but exec worries about smaller auto suppliers' survival, Automotive News, June 16, 2025.
[8] Laurence Iliff, EV registrations fall in April for first time in 14 months as Tesla slides 16% in U.S., Automotive News, June 13, 2025.
[9] GlobalData U.S. Light Vehicle Sales Forecast, Q2 2025.
[10] Paolo Confino, The Fed holds interest rates steady and forecasts two rate cuts for 2025, Fortune, June 18, 2025.