

pwc Analyst Note >

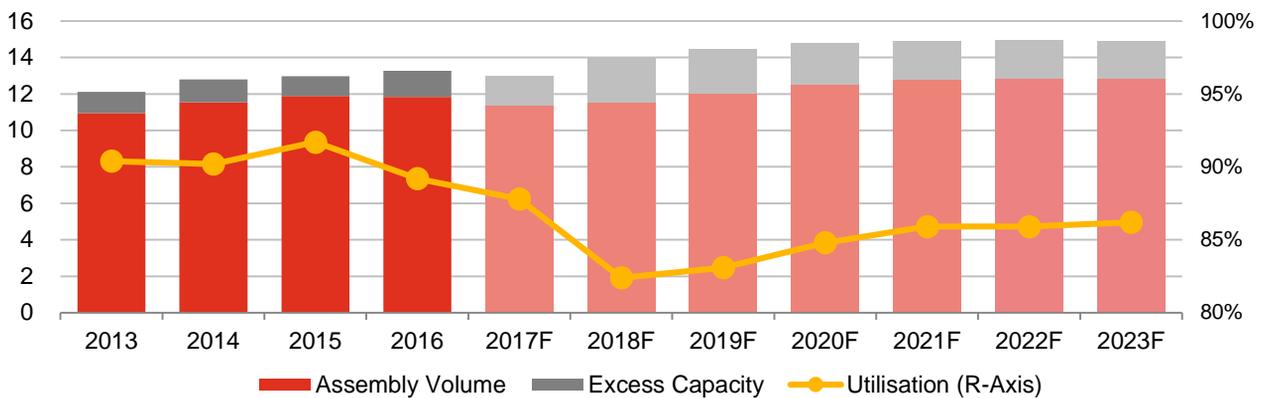
U.S.: Ushering in a new era

Will the new administration bring change to the auto industry?

The first three months of the new Trump administration have been a whirlwind of executive orders and new legislation, setting the tone for an ambitious first term. A number of Trump initiatives that have a direct impact on the automotive industry have already started to take shape, while others have fallen off the radar – for now.

US: Light Vehicle Assembly

2013 – 2023F (millions)



Source: Autofacts 2017 Q2 Forecast Release

New times, new measures

During his campaign, President Trump took staunch and often uncompromising stances against several measures that directly impact the auto industry. Three areas that have emerged at the forefront include trade pacts, emissions standards, and infrastructure development. On par with other issues the new administration is tackling, some developments have unfolded at an accelerated pace while others have been put on the back burner. As we approach the 100-day mark of the new Trump administration, campaign issues pertaining to the automotive industry are still unfolding.

Negotiating NAFTA?

The President targeted the growing trade deficit with Mexico and spoke often of imposing tariffs on imports from our southern neighbors. At the end of March, President Trump issued two executive orders on trade, one that directs the Commerce Department

to issue a report on the causes of trade imbalance and another that aims to give customs officials more power to collect duties owed to the US. The White House also has provided to Congress a paper on top issues for renegotiating NAFTA. It remains unclear when negotiations will occur in earnest, with a range of possible outcomes. If the agreement is scrapped entirely, trade terms would default to that default to WTO rules, which would impose tariffs on some imports where there are currently none. Mexico is the largest country of origin for passenger vehicles, shipping 2.2 million passenger cars and light trucks, equating to 12.6% of US sales in 2016 and making up 27% of all imports. Mexico is also, by a large margin, the largest source of vehicle parts as well, with over \$52.7 billion dollars coming across the border. Any tariff imposition could have an immediate and significant impact on sales while also potentially triggering a domino effect as other markets consider enacting protectionist tariffs in response.

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Emissions standards and fuel economy

President Trump's move to ease fuel economy and CAFE standards have been a welcome change for US automakers who have grown increasingly wary of the cost and potential inability to meet the standards. Consumers have been increasingly favoring larger vehicles, with the sales mix at 60% light truck and 40% passenger car based in 2016. Meanwhile, alternatively fueled vehicles (hybrids, pure electric, fuel cell, etc.) were a mere 2.8% of US sales. The outgoing Obama administration instructed the Environmental Protection Agency to finalize the 2022-2025 standard despite not being mandated to do so until April 2018. Following through on his campaign promise, the administration has started legal proceedings to roll back the previous standards and, further, to revoke a waiver for California that allowed them to enforce more stringent standards than federal mandates. Moreover, the President is said to be slashing nearly the entire budget for the EPA's budget for emissions and fuel economy testing and reducing the unit's headcount. If these cuts are indeed in the EPA's new budget to be released in May, new vehicle testing and certifications may take much longer and face delays in bringing new products to market.

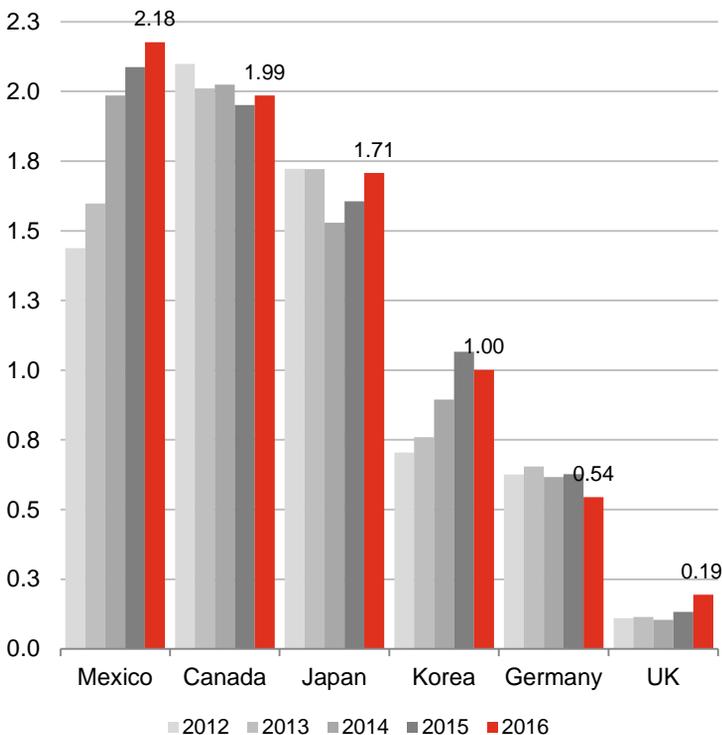
Highways and byways

The deteriorating condition of roads and highways was a popular topic during the campaign, and in February 2017, President Trump proposed \$1 trillion in additional public and private funds to be allocated towards infrastructure improvements along with investments in new technologies like road sensors and smart traffic lights. The administration appears to be pivoting towards a national focus on infrastructure development as opposed to a regional spending model. The current draft budget cuts funding to regional development projects and grants, but a larger bill is expected to address the promised investment.

As this unpredictable new era unfolds, much is yet to be determined when it comes to the Trump administration. If the early months are any indication, policy changes, discussions, and negotiations will occur at an unprecedented pace. Staying updated will be essential to understanding the impact on the auto industry.

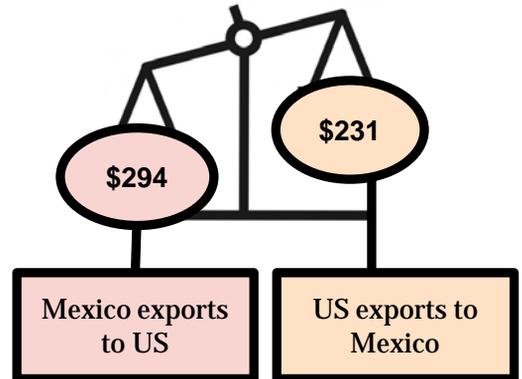
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US: Imports of Passenger Vehicles by Country (units) 2012 – 2016 (millions)



Source: trade.gov

US & Mexico Trade Balance 2016 (\$ billion)



US Light Vehicle Sales Breakdown 2016

