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How the US automotive industry may be impacted by the new administration

Potential implications and considerations for the months ahead

As an unpredictable new political era unfolds in Washington, new policies and regulation could have substantial impact on vehicle manufacturers and suppliers

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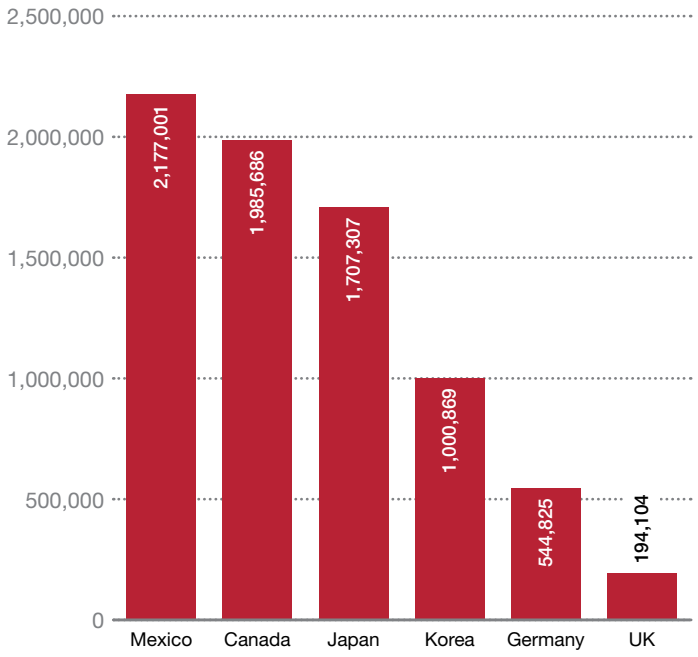
After the dust settled on the results of the 2016 US presidential election, many wondered what an incoming Trump administration would mean to the automotive industry. After all, President Trump took many hard stances on the campaign trail, but ultimately not all of his proposed policies will come to fruition. This is a crucial point to consider, and to properly vet the possible implications, one should not jump to conclusions. Nearly three months in, pieces of Donald Trump's agenda are beginning to come into focus: Developments in immigration and health care are sure to accelerate in the coming weeks and months. Other issues, such as financial regulation and tax reform, likely will require prolonged discussions, and reaching consensus on these complex issues could take some time. These points aside, there are several additional areas that could soon weigh heavily on automotive industry participants:

Trade

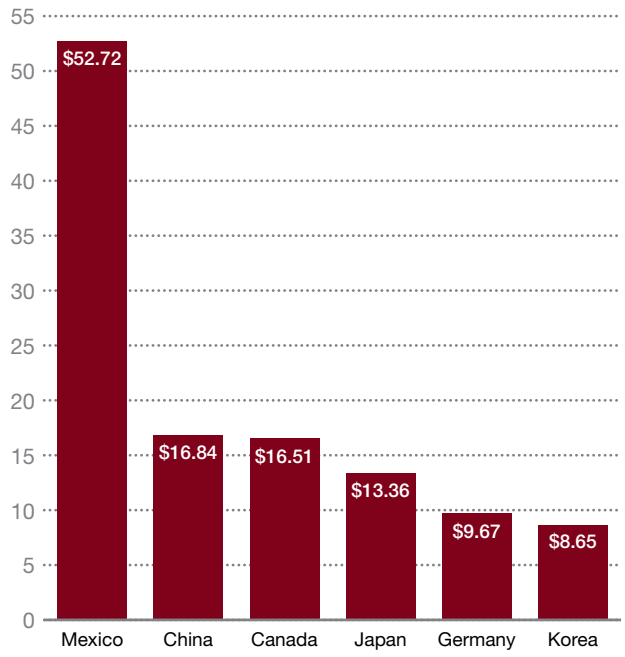
Having delivered on a promise to pull out of the Trans-Pacific Partnership (TPP) during the first week of his presidency, President Trump has now set his sights on renegotiating the terms of the North American Free Trade Agreement (NAFTA). A cornerstone trade policy since it went into effect in 1994, NAFTA allows for free trade on a number of goods between the United States, Canada and Mexico, including light vehicles and powertrain systems. While the Canadian automotive industry has struggled in recent years because of high labor costs, Mexico has leveraged its low wages, free trade agreements and proximity to US markets to attract millions of units of new capacity, as well as a growing supply chain to support it. PwC's Autofacts group anticipates Mexican light vehicle assembly will grow by an impressive 37% from 2016-2023, going from 3.5 million units annually to 4.8 million. This ranks third globally during this period in terms of assembly growth, behind only China and India. The recent devaluation of the Mexican peso has contributed to this surge, as a number of new automakers have announced assembly facility investments in recent years.

US Imports by Country

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



US: Imports of Auto Parts (Value in USD)
2016 (billions)



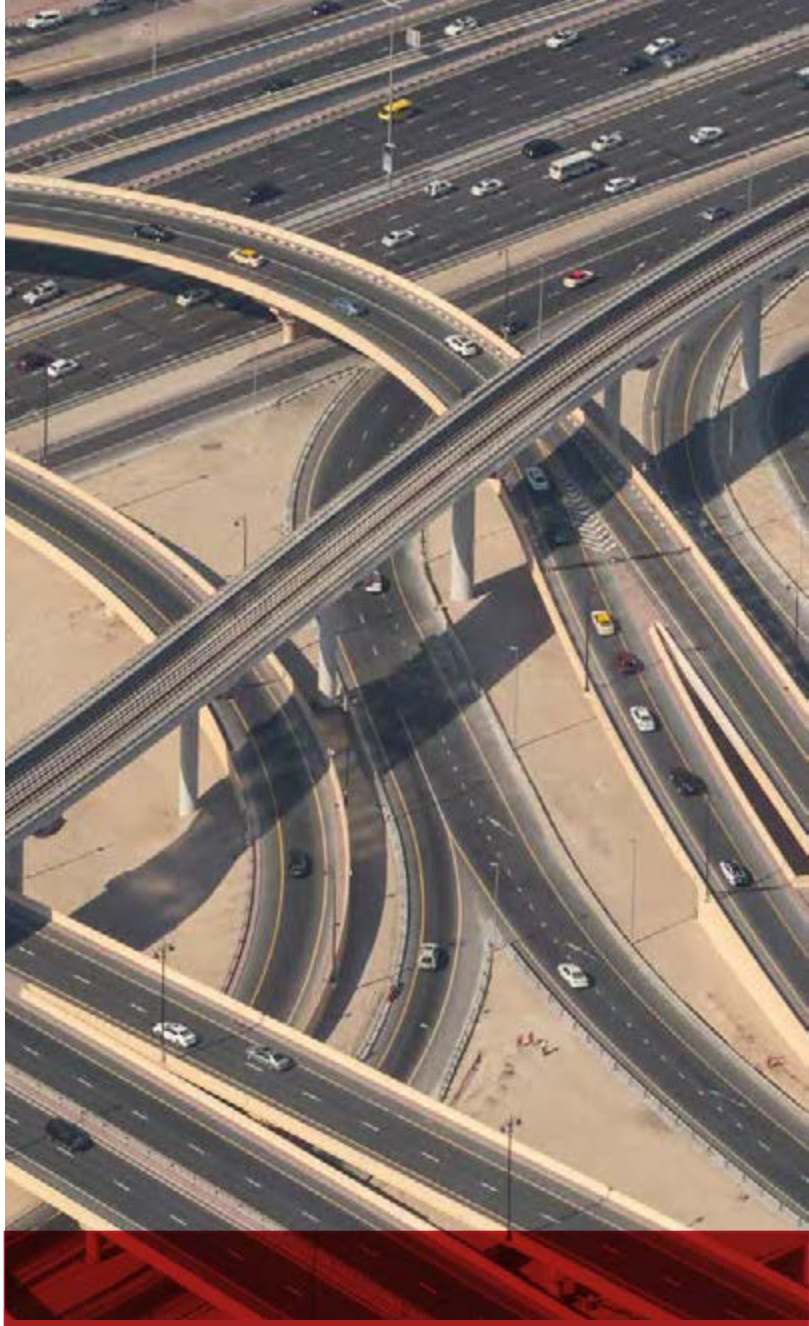
With NAFTA negotiations expected to begin in earnest this summer, several key points remain to be hashed out. While certain elements of the agreement, such as local content -- currently set at a threshold of 62.5% for passenger cars, light trucks, engines and transmissions to qualify for free-trade status -- are seen to be easier to modify, tariffs will likely be a sticking point. Not only has Mexico been steadfast in saying that the addition of any tariff on its goods would be a nonstarter for them, but it sets a potentially dangerous precedent that could trigger increased protectionist measures around the globe. Several possible scenarios exist, ranging from relatively few changes, to significant tariffs being added, to scrapping the agreement (which would trigger a default to World Trade Organization agreements that involve a smaller tariff range), all with the a desired outcome of shrinking the trade imbalance between the two countries and stimulating investment and job growth in the US. Mexico shipped nearly 2.2 million passenger cars and light trucks to the US in 2016, accounting for 12.6% of US sales and over 27% of total vehicle imports, more than any other country. While most industry participants who would be impacted are officially taking a "wait and see" approach, several companies already have contingency plans in place. Those who have a large manufacturing footprint in the US and have yet to invest significant new capital in Mexico remain in the most advantageous position, but there's no doubting the ultimate agreement's economic impact on future decisions.

Fuel Economy & Emission Standards

Since the initial 2025 vehicle emission standards were first proposed in 2011, there has been a growing call for an easing of targets for automakers in the US. Several factors have worked against the industry in recent years. For example, when the initial standard was proposed in 2011, government officials estimated that the fleet mix would be 67% passenger cars and 33% light trucks by 2025. But with oil prices falling and the number of new nameplates subsequently rising, sales of light trucks have soared to an all-time high: SUVs, crossovers and pickups made up more than 60% of new vehicles sold in 2016. Meanwhile, sales of alternative propulsion vehicles (hybrid, electric, hydrogen, etc.) made up a mere 2.8% of the US market. As a result, the initial guidance of a fleet-wide average of 54.5 miles per gallon in 2025 was lowered to a range of 50.8 to 52.6 mpg.

During a meeting with auto CEOs just days after his inauguration, Trump called environmental regulations "out of control." Automakers who were growing increasingly wary of the cost of emissions standards -- and the potential inability to meet them -- saw this as welcome news. Automakers estimated that the cost to comply with the initial targets from 2022 to 2025 would be about $200 billion, and that even today no conventional vehicles exist that would meet the 2025 standard. Just before the end of President Obama's term, his administration instructed the Environmental Protection Agency to finalize the 2022-2025 standard, despite not being mandated to do so until April 2018, thus making it more difficult for the incoming administration to overturn. Following through on his promise during the campaign, Trump recently instructed the EPA to begin 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.

While the immediate impact appears to be at least some pullback of investment in -- and large-scale rollout of -- alternative propulsion technologies in the US, it remains unclear where those previously tagged investments might shift; increased focus on vehicle safety is one possibility, while the accelerated rollout of autonomous vehicle technology could be another beneficiary. This policy shift contrasts with the push to replace all combustion-engine vehicles in the European Union over the next several decades, but it is in line with what automakers have been pleading to regulatory bodies. Consumer demand still favors conventional combustion vehicles, and changing consumer buying habits would require more coercive, direct-impact measures, such as higher fuel taxes or price premiums on vehicles deemed less fuel-efficient.



Trump's initial plan has called for $137 billion in tax credits to stimulate private investment.

Infrastructure

During the 2016 campaign, each presidential candidate proposed varying levels of support for addressing US infrastructure. It was one of few issues on which all parties solidly agreed. According to a 2013 report

published by the American Society of Civil Engineers, 32% of major US roads are in poor or mediocre condition, costing motorists an estimated $67 billion in additional vehicle repairs and operating costs. The ASCE gave the overall US infrastructure a “D+” grade and the grade for US roads a “D”. In February 2017, President Trump proposed $1 trillion in additional public and private funds be allocated to address rundown infrastructure, with the goal of jump-starting numerous new construction projects (likening it to President Franklin Roosevelt’s New Deal), along with an opportunity to invest in new technologies, such as road sensors, smart traffic lights and autonomous infrastructure. Trump’s budget does not include this $1 trillion investment in its initial drafts, but budget director Mick Mulvaney maintains that a plan is forthcoming. The draft budget does include cuts to agencies key to regional development, including public transit projects and local infrastructure grants.

If the $1 trillion infrastructure package makes it into the proposal, finding the requisite funding and getting Congress to approve will be a potential roadblock; conservative lawmakers likely will require that funding be cut elsewhere to offset spending. Trump’s initial plan has called for $137 billion in tax credits to stimulate private investment. A proposal by Democrats would allocate $1 trillion over 10 years, with money split between infrastructure repair and investment in a variety of transportation projects deemed to be of national significance. Even if funding is secured, concerns remain that any potential economic boost will be dependent upon a suitably large skilled work force, which may not be available.

Conclusion

Policy announcements, discussions and negotiations continue to happen at an accelerated pace, with news on some issues coming almost daily. In order to best prepare your organization for potential changes in US policy, it’s important to keep up to speed on fast-changing developments.

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