

Automotive: Tariff Developments to Drive Volatility

Key Takeaways

- Recent studies have estimated that the average U.S. new vehicle price could increase by \$3,000 if the paused 25% automotive tariffs on Canada and Mexico take effect. We think the Trump administration's proposed tariffs are being driven by frustration that the U.S. imports more than three times the value of automobiles it exports.
- For consumers, the silver lining is that the tariffs come at a time of plentiful inventory levels. We think one of the most immediate impacts of the tariffs is that retailers will pull back on incentives, effectively increasing prices.
- The ultimate impact of the tariffs depends on whether they take effect, and if so, how long they remain in effect. If the tariffs are only temporary and used primarily as a political bargaining chip to extract concessions on other issues, such as illegal immigration and drug trafficking, we think the impact on auto prices and earnings would be limited. However, if the tariffs are part of a larger shift in U.S. economic policy (i.e., a new source of tax revenue going forward), then the impacts will be more material.
- The tariffs present a major near-term logistical and earnings headwind for the industry, particularly auto manufacturers and suppliers. We think it is important for investors to understand that the industry has been burned by Washington, D.C. before, most recently with policies related to electric vehicles.
- We think the longer tariff uncertainty lingers, the more likely it is that companies will throw their hands up in the air and choose to produce more automobiles in the U.S. and source more parts from the U.S., in order to mitigate future trade-related risk. This would represent a victory for President Trump in terms of his goals of domestic economic growth and job creation.
- We consider **GM** to be the most exposed to the tariffs on Mexico and Canada, followed by **STLA** and **F**. **TSLA** screens as the least exposed. We consider Canada-based **MGA** to be the most exposed auto supplier. We expect volatility in these stocks depending on how the situation plays out.

Positive (+) or Negative (-) Implications

(+) Tesla, Inc. (TSLA)

(-) Ford Motor Company (F)

(-) General Motors Company (GM)

(-) Magna International, Inc. (MGA)

(-) Stellantis N.V. (STLA)

Fundamental Context

Recent studies cited by Kelley Blue Book have estimated that the average price of new vehicles in the U.S. could increase by \$3,000 if the 25% automotive tariffs on Canada and Mexico take effect. However, the studies estimate that the impact may be significantly higher for some vehicles (such as full-sized trucks), which could see price increases of much more than \$3,000 – up to \$10,000. The 25% tariffs on Mexico and Canada were enacted on March 4, 2025, but the following day, the Trump administration granted a one-month delay in the implementation of the tariffs for automakers in compliance with the U.S.-Mexico-Canada Agreement's (USMCA) rules of origin. The tariffs - in addition to reciprocal tariffs - could take effect on April 2, 2025, although the situation is fluid.

We think the administration’s proposed tariffs are largely being driven by frustration with the fact that the U.S. imports over three times the value of automobiles it exports. As shown in Figure 1, in 2023 (latest available), the U.S. imported \$208.0 billion worth of automobiles, while exports totaled only \$65.3 billion. Mexico and Canada ranked first and third, respectively, in terms of countries of origin for imported vehicles into the U.S. in 2023, with imports totaling \$44.9 billion and \$35.0 billion, respectively (Japan ranked second at \$40.9 billion). Mexico accounted for approximately 22% of total U.S. auto imports, and Canada accounted for 17%. Looking at U.S. auto exports, Canada was the top destination at \$15.8 billion (24% of total exports), while Mexico ranked fourth at \$4.5 billion (7%).

Figure 1: U.S. Automobile Imports/Exports, USD in billions (2023)

Imports	US\$ in billions	% of Total
Mexico	\$44.9	21.6%
Japan	\$40.9	19.7%
Canada	\$35.0	16.8%
South Korea	\$31.3	15.0%
Germany	\$24.3	11.7%
All Other	\$31.6	15.2%
Total	\$208.0	100.0%
Exports	US\$ in billions	% of Total
Canada	\$15.8	24.2%
Germany	\$9.0	13.8%
China	\$7.5	11.5%
Mexico	\$4.5	6.8%
UAE	\$3.1	4.7%
All Other	\$25.4	39.0%
Total	\$65.3	100.0%

Source: CFRA, The Observatory of Economic Complexity (OEC).

Among auto manufacturers and suppliers, we consider the most exposed to these tariffs to be “Detroit Three” automakers GM, STLA, and F, as well as Canada-based auto supplier MGA, while TSLA screens as the least exposed. Mexico ranked as the world’s seventh-largest auto manufacturer by volume in 2024 at 4.0 million units (+13% Y/Y). GM was Mexico’s top auto manufacturer last year, producing 889K vehicles in the country (22% of Mexico’s total auto production). STLA ranked as Mexico’s third-largest auto producer, behind GM and Nissan. STLA currently produces Ram heavy duty pickup trucks, ProMaster vans, and the Jeep Compass and Wagoneer in Mexico. It has plans to expand in Mexico by producing the Ram 1500, Jeep Cherokee, and Recon there as well, but there are reports that the company might be reconsidering this in light of the possible tariffs.

Looking at Mexico’s auto parts and equipment industry, the country was the world’s fourth-largest producer of auto parts in 2024 (\$124.5 billion in total value). The vast majority of the auto parts produced in Mexico (87%) are exported to the U.S., while significant auto parts imports into Mexico come from the U.S. (53%) and China (14%), according to Industria Nacional de Autopartes (INA) statistics.

Canada is a much smaller auto manufacturer and supplier than Mexico, with auto production totaling 1.3 million units in 2024 (-13% year-over-year, Y/Y). Therefore, we think it is important for investors to understand that U.S. negotiations with Mexico have much greater implications for the industry than those with Canada. Toyota and Honda are the two largest auto manufacturers in Canada, but GM was also a

significant manufacturer through the 152,000 Chevy Silverados produced at its Oshawa, Ontario, plant last year. STLA also had significant production in the country through its respective Chrysler Pacifica (108,000 units of production in 2024) and Chrysler Voyager/Grand Caravan (52,000 units) production plants. F has much less production in Canada following the idling of assembly lines at the Oakville plant, but it still produced 54,000 units of the Ford Edge at the plant in 2024. The vast majority of the Canadian auto industry is located in Ontario.

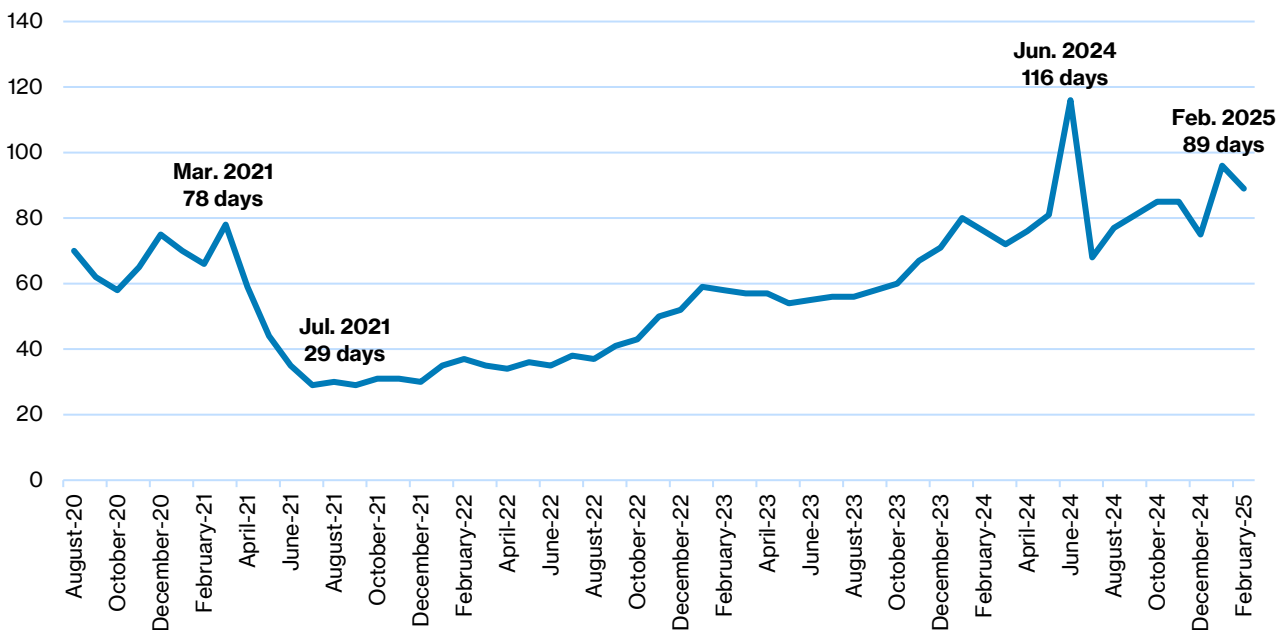
Canada's auto parts and equipment industry is similarly much smaller than Mexico's, with exports totaling \$13.4 billion and imports totaling \$20.1 billion in 2023, according to the Observatory of Economic Complexity (OEC). The U.S. accounted for 88% of Canada's auto parts exports and 68% of auto parts imports (and Mexico accounted for 10% of both exports and imports). However, we think these statistics understate the impact of the tariffs. We think they present a logistical nightmare for automotive companies, as auto parts and other raw materials routinely cross the border multiple times before being used in the final assembly of a vehicle.

Looking at auto suppliers, we consider Canada-based MGA to be the most exposed to tariffs given its size, number of products, and large manufacturing footprint across Canada, the U.S., and Mexico. At year-end 2023 (latest available), the company had 342 manufacturing facilities and 104 product development, engineering, and sales centers located in 28 countries. MGA's operational footprint totaled 50 manufacturing facilities and nine product development, engineering, and sales centers in Canada, 56 manufacturing plants and 17 development centers in the U.S., and 32 manufacturing facilities in Mexico.

It should be noted that a large percentage of U.S. auto imports are vehicles produced just over the border in Mexico and Canada by traditional automakers (many of which are "Detroit Three" companies) and sold in the U.S. The Trump administration has been clear that it would like many of these factories and jobs to be located in the U.S. Notably, the largest auto workers' union, the United Auto Workers (UAW), has come out in support of the tariffs. It issued a statement in early February 2025 stating, "The UAW supports aggressive tariff action to protect American manufacturing jobs as a good first step to undoing decades of anti-worker trade policy... We are willing to support the Trump administration's use of tariffs to stop plant closures and curb the power of corporations that pit U.S. workers against workers in other countries." The UAW also urged President Trump to renegotiate the USMCA, the free trade agreement between the U.S., Mexico, and Canada, which replaced the North American Free Trade Agreement (NAFTA) and was signed in 2019 during the first Trump administration. The USMCA trade deal has a 14-year term and went into effect on July 1, 2020, but it contains a provision for review and adjustment in 2026. As a reminder, the UAW gave its presidential endorsement to Kamala Harris last summer. We think the tariffs could be a precursor to the U.S. pursuing a review and adjustment of the terms of the USMCA.

The silver lining for U.S. consumers worried about a resulting jump in new vehicle prices from the tariffs is that dealer inventory levels are near their highest levels in years. As shown in Figure 2, U.S. new vehicle inventories at auto dealerships stood at 89 days' supply at the end of February 2025 (well above the historic average of 60 days). By comparison, in late 2021, inventories stood at around 30 days. In short, the U.S. auto market is currently well supplied, although we have heard several reports of retailers citing the threat of tariffs and uncertainty related to future production as a reason to offer less generous incentives to prospective buyers. As auto inventories have rebounded from the historic lows reached during the Covid-19 pandemic, when the industry was plagued by chip shortages and supply chain issues, incentives rebounded in tandem, thereby keeping prices from moving higher. However, new vehicle prices remain elevated and not far from the record-high level reached in late 2022.

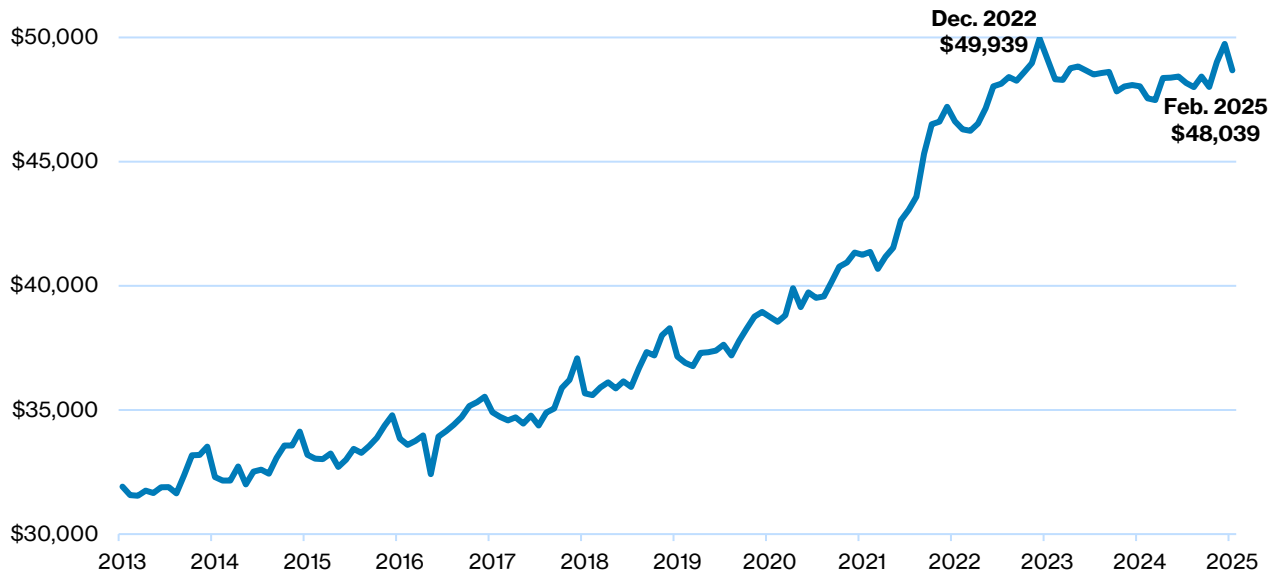
Figure 2: U.S. New Vehicle Days' Supply of Inventory, August 2020-February 2025



Source: CFRA, Cox Automotive.

While the average new vehicle price peaked at \$49,958 in December 2022, at the height of the chip shortages and supply chain issues, prices remain elevated and not far from record highs. In February 2025, the average U.S. new vehicle transaction price was \$48,039, as shown in Figure 3, which is less than 4% below the record high. In fact, one of our “Top 10 Predictions for 2025” published in early December 2024, was that new vehicle prices would rise in 2025 despite the inventory overhang. If the tariffs on Mexico and Canada go into effect, we think new vehicle prices could eclipse the \$50,000 level sooner rather than later.

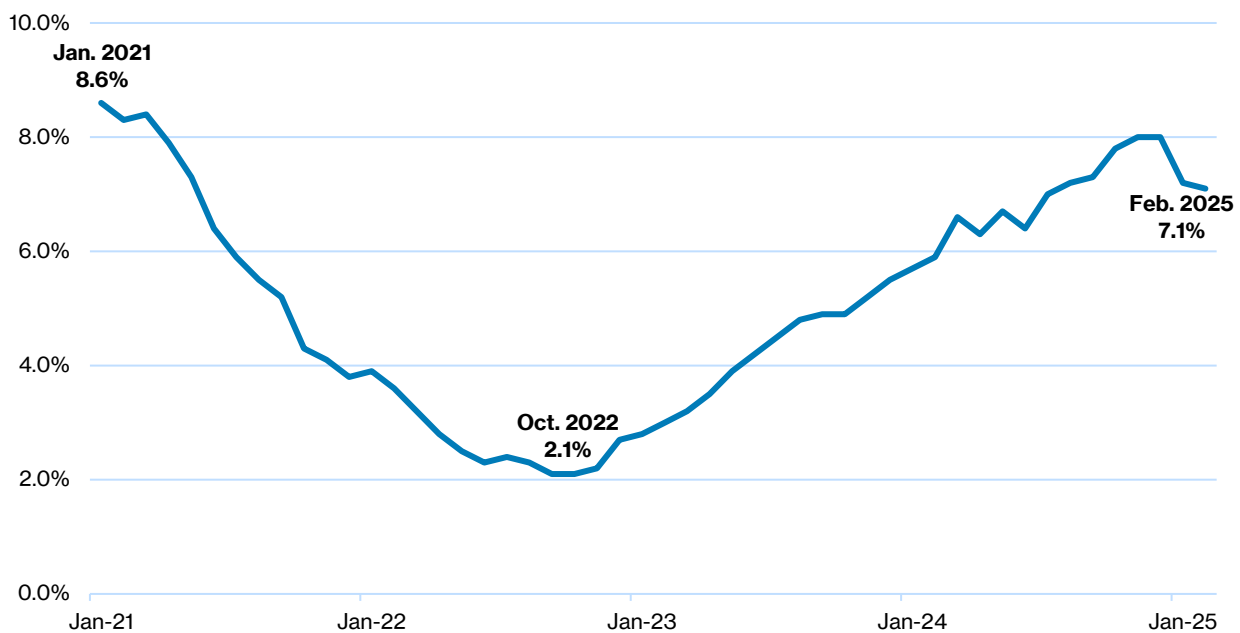
Figure 3: Average U.S. New Vehicle Transaction Price, January 2013-February 2025



Source: CFRA, Kelley Blue Book.

As new vehicle inventories have risen, so have incentives. As shown in Figure 4, new vehicle incentives stood at 7.1% of the average transaction price in February 2025, up from a historic low of 2.1% in October 2022. We think one of the most immediate impacts of the tariffs is that retailers will pull back on incentives, effectively increasing prices. In the near term, we think many dealers will be opportunistic in capitalizing on consumer fears of price increases and increased traffic at their stores (combined with a seasonal uptick in sales from tax refunds) by offering less favorable terms to buyers. Interestingly, data shows that incentives have moderated slightly since the election, declining from 8.0% of the average transaction price (ATP) in November 2024 to 7.1% in February 2025, raising the question of how much concerns about tariffs are impacting the market. Electric vehicles (EVs), luxury cars, full-size pickup trucks, and compact SUVs are some of the vehicle types with the highest incentives currently, while compact cars, small/midsize pickups, and high-performance cars have some of the lowest incentives.

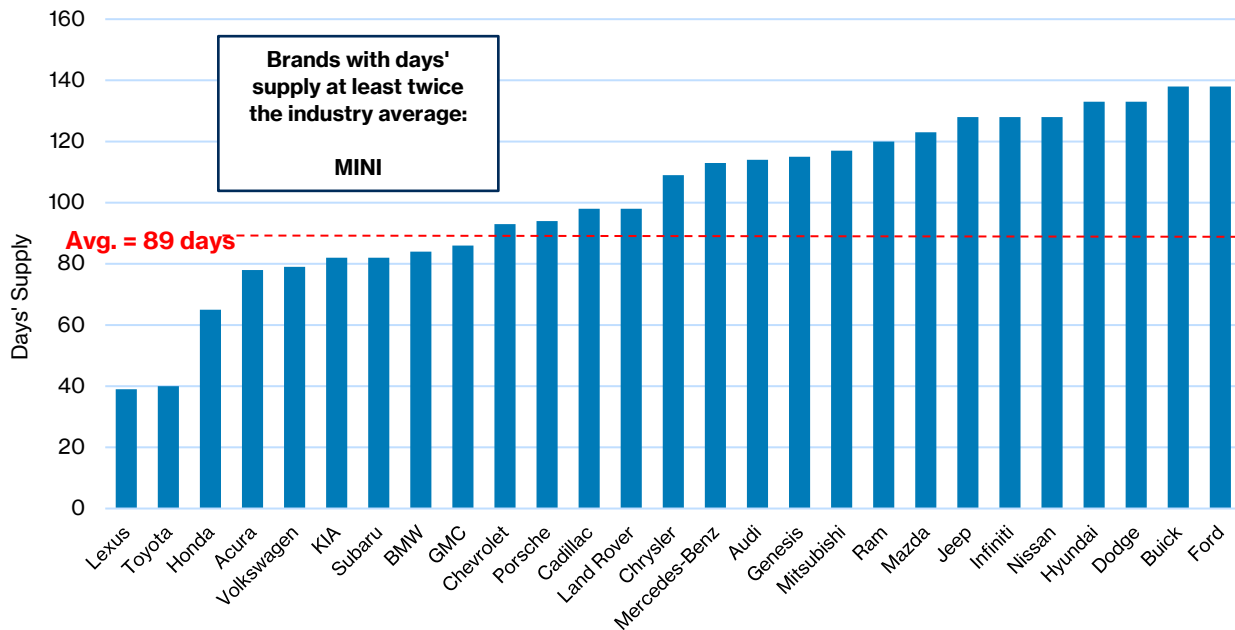
Figure 4: Average U.S. New Vehicle Incentive Package as a Percentage of Average Transaction Price (ATP), January 2021 to February 2025



Source: CFRA, Kelley Blue Book, Cox Automotive.

Looking across the U.S. auto industry, current dealer inventory levels vary widely by brand. As shown in Figure 5 (below), at the low end of the range were Lexus (39 days' supply) and Toyota (40), with MINI, Ford (138), and Buick (138) at the high end in February 2025. One key observation is that many of the Japanese brands have below-average inventory levels, while the brands of the Detroit Three have higher inventory levels.

Figure 5: U.S. New Vehicle Days' Supply of Inventory by Brand, February 2025



Source: CFRA, Cox Automotive estimates.

The tariffs present a major near-term logistical and earnings headwind for the industry, particularly auto manufacturers and suppliers. We think it is important for investors to understand that the industry has been burned by Washington, D.C. before, most recently with policies related to electric vehicles. During the Biden administration and before that, the Obama administration, numerous subsidies, tax credits, and other incentives were introduced to support the growth of EVs and renewable energy. Persuaded that the future of the industry was electric, automakers invested billions in EV battery plants, converted traditional auto assembly plants into EV plants, and set dates in the future when their internal combustion engine (ICE) models would be discontinued and their entire fleet would be electric. Facing the discontinuation of the federal EV tax credit and other incentives, automakers are now reversing course on these plans, and we think billions in capital have been destroyed as a result.

We think the longer tariff uncertainty lingers, the more likely it becomes that companies throw their hands up and choose to produce more automobiles in the U.S. and source more parts from the U.S., in order to mitigate future trade-related risk. This would represent a victory for President Trump in terms of his goals of domestic economic growth and job creation. In fact, the Wall Street Journal reported in a March 23 article that some automakers are considering exactly that, specifically mentioning BMW. Then, on March 24, South Korean conglomerate Hyundai announced a \$21 billion investment in the U.S., including the construction of a \$5.8 billion steel plant in Louisiana, which will supply steel to the company's U.S. auto plants. The CEO of Hyundai Motor stated, "The best way for Hyundai to navigate tariffs is to increase localization." Therefore, in our view, it is fair to wonder whether the chaotic "on-and-off again" or "keep everyone guessing"-type behavior regarding tariff policy is a calculated move by the administration.

Finally, we think there's significant worry among European automakers that President Trump is going to target Europe for the next round of tariffs because the U.S. has a large automotive trade deficit with Europe as well. Indeed, many of the bestselling U.S. auto brands like Chevy and Jeep are scarce on European roads, but European auto brands like Volkswagen, Audi, BMW, MINI, and Mercedes-Benz are common in the U.S. The European Union (EU) has a 10% tariff on U.S. auto imports, but the U.S. only has a 2.5% tariff on EU auto imports. There are reasons why U.S. cars are not as

popular in Europe, such as the fact that the Detroit Three have discontinued many sedan and compact cars models, as well as higher fuel prices in the EU, taxes on larger vehicles, and the fact that many European roads are narrower. European-based automakers have also been losing market share, as the EU market has become more crowded with competition from Japanese, South Korean, and increasingly, Chinese auto brands.

Risk Factors

Risks to our analysis include, but are not limited to, global economic conditions given the highly cyclical nature of the automotive industry; interest rates; crude oil and gasoline prices; and raw material and labor costs. Currency rates could also be more or less favorable than we anticipate. Other risks to our thesis include changes in domestic and global automobile supply/demand, the impact of tariffs and other recent trade policy changes on financial results, and other economic and consumer-related factors, including, but not limited to, GDP growth, inflation, consumer confidence, employment statistics, wages, discretionary income, and crude oil/gasoline prices.

Company Implications

Tesla Inc. (TSLA 276 **)** is an electric vehicle pure play, with five non-commercial battery EV models currently available: the Cybertruck, Model Y, Model 3, Model X, and Model S. In 2024, TSLA generated total revenue of \$97.7 billion on global sales totaling 1.79 million vehicles (-1% Y/Y), consisting of 1.70 million Model 3 and Y vehicles and 85,000 for the Model S, X, Cybertruck, and Semi. The geographic breakdown of TSLA's total revenue in 2024 was: U.S. (49%), China (21%), and All Other (30%). TSLA has four reportable segments: Automotive sales (77% of total 2024 revenues), Automotive Leasing (2%), Services & Other (11%), and Energy Generation & Storage (10%). TSLA accounted for 49% of all U.S. EV sales in 2024. The Model Y and Model 3 were the two bestselling U.S. EV models by a wide margin last year, with estimated U.S. sales of approximately 373,000 units for the Model Y and 190,000 units for the Model 3.

We consider TSLA the least exposed to the tariffs, noting that it was named the “most American-made car company” from 2022 to 2024 by Cars.com based on a variety of criteria such as assembly location and parts content/origin. TSLA has largely regionalized auto production and deliveries by establishing a manufacturing presence and sourcing parts across the three major markets of the U.S., Europe, and Asia, including its Fremont, California and Austin, Texas factories; the Berlin, Germany plant; and the Shanghai, China factory.

We have a Buy opinion and a 12-month price target of \$385 on TSLA based on 100x our 2026 EPS estimate of \$3.85. We expect an acceleration of profits as TSLA ramps production and aims to deliver on its goal of increasing annual auto volumes by 40x by the end of this decade (from approximately 500,000 in 2020 to 20 million by 2030). TSLA's valuation premium relative to auto competitors reflects various technologies in development, including a ride-hailing app, a humanoid robot, AI computing, and fully self-driving vehicles.

Ford Motor Company (F 10 *)** was the third-largest motor vehicle manufacturer in terms of U.S. sales volume last year (behind GM and Toyota), accounting for 12.6% of U.S. new vehicle sales in 2024. F's U.S. sales totaled 2.08 million vehicles (+4% Y/Y), comprising 1.79 million internal combustion engine (ICE) vehicles, 187,000 hybrid vehicles, and 98K electric vehicles. F's key brands include Ford and Lincoln. In 2024, F's global sales totaled 4.47 million vehicles (+1% from 2023). The geographic breakdown of its global vehicle unit sales in 2024 was: the U.S. (49%), China (10%), Canada (6%), U.K. (5%), Germany (3%), Turkey (3%), Italy (2%), and All Other (22%). F ranked as the eighth-largest automaker in terms of global sales volume in 2024.

We consider F exposed to the tariffs, but is the least exposed of the “Detroit Three” automakers because it has less production in Mexico and Canada than either GM or STLA. F has much less production in Canada

following the idling of assembly lines at the Oakville plant, but it still produced 54,000 units of the Ford Edge at the plant in 2024.

We have a Hold opinion and a 12-month price target of \$9 on F shares, based on 5.6x our 2026 EPS estimate, a discount to the stock's 10-year mean forward P/E of 7.5x.

General Motors Company (GM 52 *)** was the largest motor vehicle manufacturer in terms of U.S. sales volume last year, accounting for 16.5% of U.S. new vehicle sales in 2024. Some of GM's key brands include Chevrolet, GMC, Cadillac, and Buick. GM's 2024 global sales totaled 6.00 million units (-3% from 2023), with U.S. sales volume totaling 2.71 million units (+4%). The geographic breakdown of 2024 vehicle unit sales was: the U.S. (45%), China (31%), Brazil (5%), and all other (19%). The company ranked as the seventh-largest automaker in terms of global sales volume in 2024.

We consider GM the most exposed U.S. automaker to the tariffs, noting that GM was Mexico's top auto manufacturer in 2024, producing 889,000 vehicles in the country (22% of Mexico's total auto production). GM also has a significant manufacturing presence in Canada through the 152,000 Chevy Silverados produced at its Oshawa, Ontario, plant last year.

We have a Hold opinion and a 12-month price target of \$55 on GM shares, based on 4.8x our 2026 EPS forecast of \$11.45, a discount to GM's 10-year average forward P/E of 6.9x due to concerns over weak demand and its aggressive EV strategy, which we expect to weigh on valuation multiples.

Magna International Inc. (MGA 37 *)** is the largest North American manufacturer of auto parts and equipment. Based just outside of Toronto, Canada, Magna designs, develops, and manufactures automotive systems, assemblies, modules, and components in North America, Europe, Asia, and South America. The company had 342 manufacturing facilities and 104 product development, engineering, and sales centers located in 28 countries at year-end 2023 (latest available). The breakdown of MGA's 2024 revenues by product was approximately: Body Exteriors and Structures (40%), Power & Vision (36%), Seating Systems (14%), and Complete Vehicles & Other (11%).

Looking at auto suppliers, we consider MGA the most exposed to tariffs given its size, number of products, and large manufacturing footprint across Canada, the U.S. and Mexico. At year-end 2023, MGA's footprint totaled 50 manufacturing facilities and nine product development, engineering, and sales centers in Canada, 56 manufacturing plants and 17 development centers in the U.S., and 32 manufacturing facilities in Mexico. In 2023, sales to North American customers accounted for 50% of total revenues, Europe for 38%, Asia-Pacific for 11%, and Rest of World for 1%. MGA's six largest customers accounted for 76% of its total revenues in 2023 (latest available), namely GM (15%), Mercedes-Benz (14%), BMW (12%), STLA (12%), F (12%), and Volkswagen (11%), with the remainder All Other (24%).

We have a Hold opinion and a 12-month price target of \$38 on MGA shares, based on 5.9x our 2026 EPS estimate, a justified discount to historic averages.

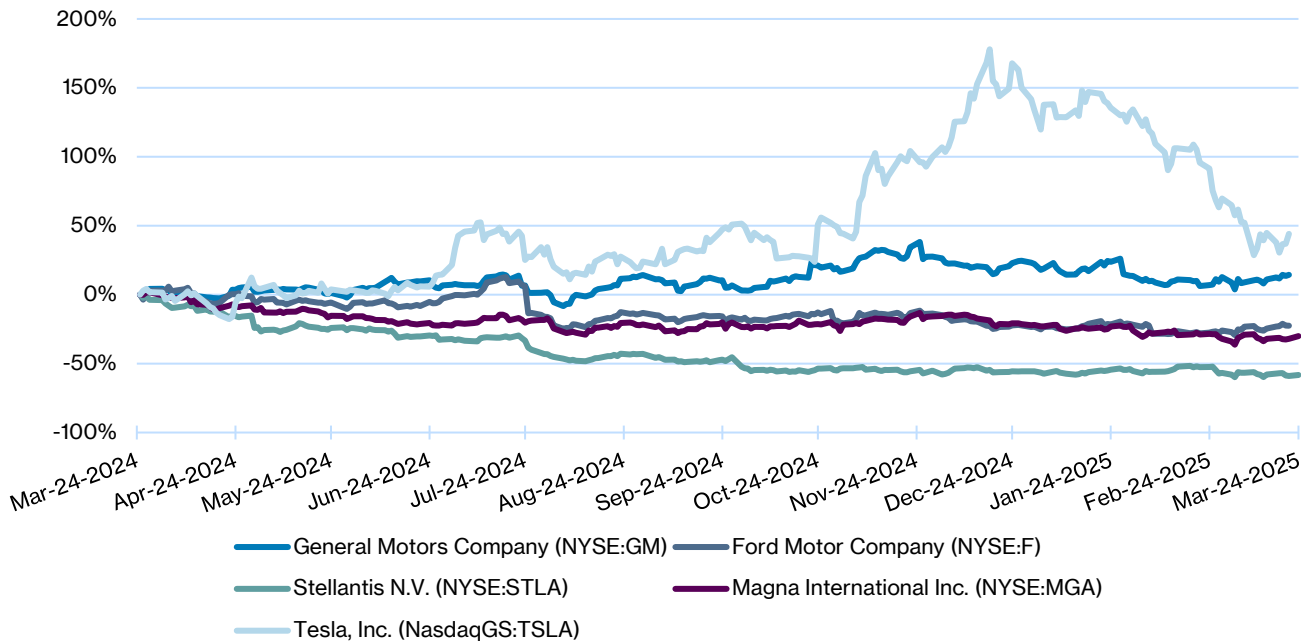
Stellantis N.V. (STLA 12 *)** was the sixth-largest motor vehicle manufacturer in terms of U.S. sales volume in 2024, accounting for 8.0% of U.S. new vehicle sales (behind GM, Toyota, F, Hyundai/Kia, and Honda). Some of STLA's key brands include Jeep, Ram, Dodge, Chrysler, Peugeot, Fiat, Citroen, Opel, and Alfa Romeo. In 2024, Stellantis' global sales totaled 5.7 million vehicles (-8% from 2023). The geographic breakdown of its vehicle unit sales in 2024 was: Enlarged Europe (46%), the U.S. (26%), South America (16%), Middle East & Africa (8%), and All Other (4%). The company ranked as the fourth-largest automaker in terms of global sales volume in 2024 (behind Toyota, Volkswagen, and Hyundai-KIA).

STLA ranked as Mexico's third-largest auto producer last year, behind GM and Nissan. The company produces Ram heavy duty pickup trucks, ProMaster vans, and the Jeep Compass and Wagoneer in Mexico. STLA has plans to expand in Mexico by producing the Ram 1500, Jeep Cherokee, and Recon in the country as well, but there have been reports that the company might be reconsidering this in light of the tariffs. STLA

also has significant production in Canada through its respective Chrysler Pacifica (108,000 units of production in 2024) and Chrysler Voyager/Grand Caravan (52,000 units) production plants, although it has a smaller presence in the country than companies such as Toyota, Honda, or GM.

We have a Hold opinion and a 12-month price target of \$14 on STLA shares, based on 5x our 2025 EPS estimate, broadly in line with the historical average.

Relative Performance



Source: S&P Global Market Intelligence.

Implications*

Positive implications: CFRA sees an improvement in company fundamentals, which could include (but are not limited to) improved pricing, strengthening backlog, market share gains, cost improvements, a more favorable regulatory environment, or improving demographic trends, over the next 12 months.

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