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How OEMs Are Responding to Tariff Effects in the US Auto Market

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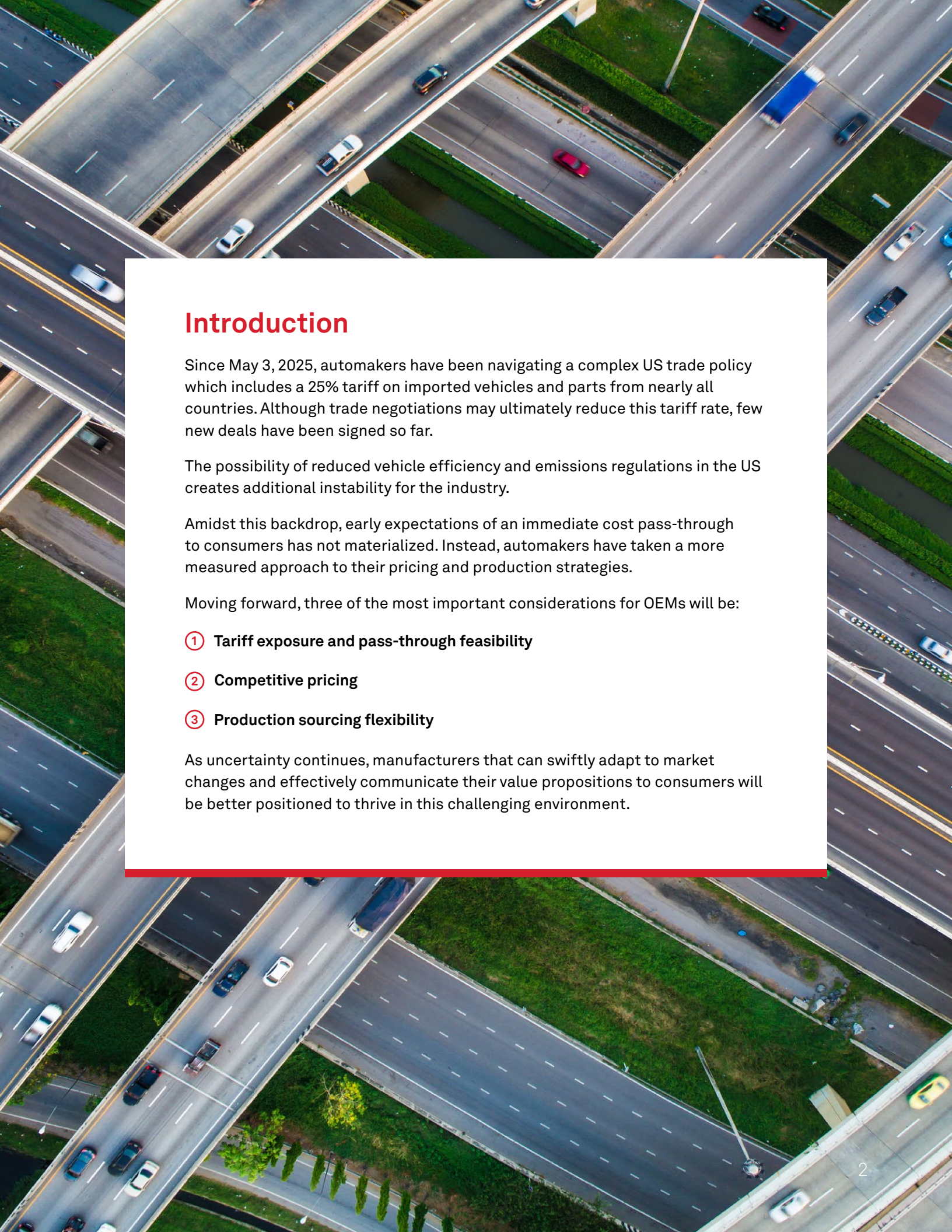

Introduction

Since May 3, 2025, automakers have been navigating a complex US trade policy which includes a 25% tariff on imported vehicles and parts from nearly all countries. Although trade negotiations may ultimately reduce this tariff rate, few new deals have been signed so far.

The possibility of reduced vehicle efficiency and emissions regulations in the US creates additional instability for the industry.

Amidst this backdrop, early expectations of an immediate cost pass-through to consumers has not materialized. Instead, automakers have taken a more measured approach to their pricing and production strategies.

Moving forward, three of the most important considerations for OEMs will be:

1. **Tariff exposure and pass-through feasibility**
2. **Competitive pricing**
3. **Production sourcing flexibility**

As uncertainty continues, manufacturers that can swiftly adapt to market changes and effectively communicate their value propositions to consumers will be better positioned to thrive in this challenging environment.

Impact of Tariffs on US auto sales remains largely muted

In addition to the 25% tariffs on imported vehicles and parts, tariffs on copper, steel and aluminum are also impacting automotive production costs. Since May 3, no vehicles imported to or produced in the US have escaped cost increases.

The tariff situation remains fluid; there is every expectation that the final rates will be lower than 25% but determining how much lower and when has been impossible. For an industry highly susceptible to cost issues, response has overall been thoughtful and slow.

Automakers have been cautious on changing pricing and production has not dramatically slowed. Rather than increasing the cost to the customer, automakers have largely absorbed the impact through at least August 2025.

As a result, US light-vehicle sales over the first half of 2025 remained relatively robust. Though the tariffs were collected from May 3 forward, for most automakers, sales in May and June would have largely been non-tariff stock. There was no need to increase pricing for vehicles which had not incurred higher import costs, which meant that consumers did not see price increases or significantly reduced inventory.

US light-vehicle sales were up 3.0% in the January to June 2025 timeframe, versus the first half of 2024.

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Electric vehicle sales see mixed results as EV tax credits expire

President Donald Trump ran his presidential campaign promising to ease vehicle efficiency and emissions regulations, as well as to reduce government support of incentives and infrastructure development. Over the first six months of 2025, however, not much changed, though California's waiver to set emissions standards was revoked.

In July, a US budget bill changed the expiration date for the US federal EV tax credits to Sep. 30, 2025, instead of 2032, and reduced OEM fines for non-compliance with fuel economy regulations to US$0.

With the new budget bill in place on July 4, EV sales grew about 19% year over year in July. S&P Global Mobility expects that EV sales will be strong in August and September and fall off the last three months of the year – depending on how OEMs handle the change.

Over the first six months of 2025, however, EV sales plateaued. EV sales increased only 0.1% in the first half of 2025, to 599,130 units. EV market share reached 7.4% over the first half of the year, versus 7.5% in the first half of 2024.

Registration data shows a somewhat different view, with an increase of 6.9% in volume and market share increase from 7.4% to 7.5%. Looking at sales as reported by OEMs and industry sources is a leading indicator; registration data reflects when an owner takes possession and puts the vehicle on the road. It is not unusual to see a lag between when a vehicle is sold by an OEM and when it is sold by a dealer to a customer and registered.

The plateauing of EV sales also occurred despite a field with more available choice. Roughly 24 new EVs launched in the first half of 2025, bringing the total to about 85 available models—excluding discontinued ones like the Chevrolet Bolt. Sales declined for 36 carryover models.

2025 Sales Outlook Adjusted Upward

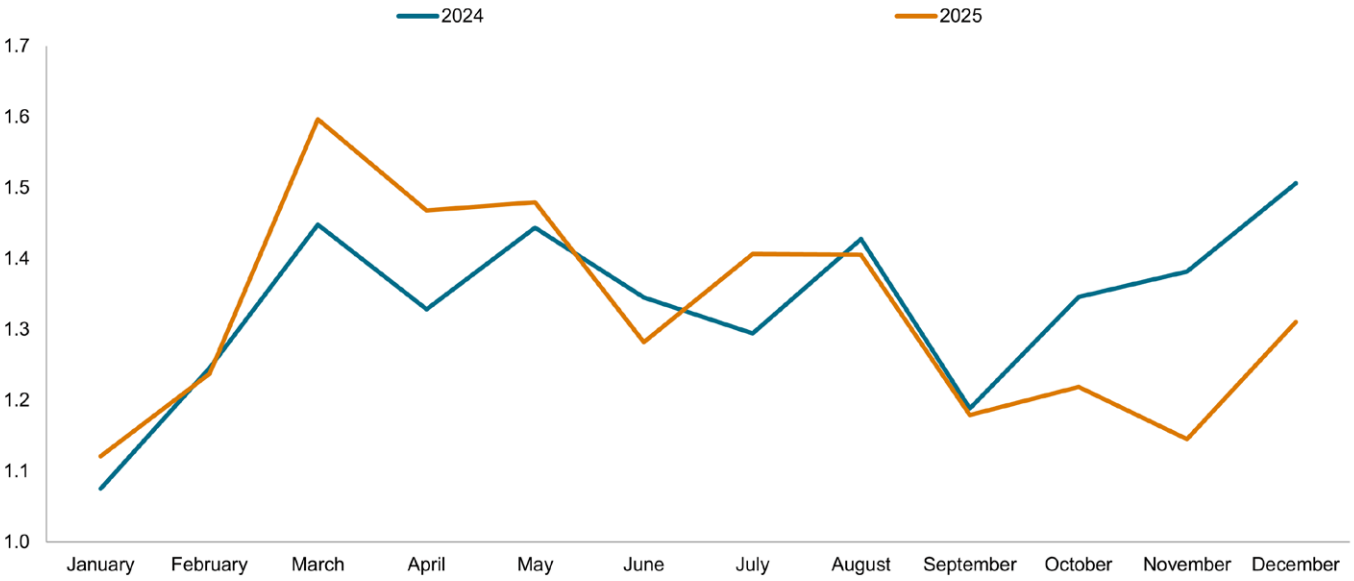
Given the strength of sales so far this year, as well as the potential for reduced tariffs from key regions by the end of the third quarter, S&P Global Mobility has again adjusted expectations for 2025 sales upward.

With our April 2025 forecast round and the early tariff announcements, we had revised our forecast for 2025 to be a 2.8% decline, with 2026 seeing a greater negative impact. We revised 2027 downward as well, though by 2028 expected that the tariff disruption would have been incorporated into automaker operations enough to stop being a force holding vehicle sales back.

The full imposition of tariffs and automaker reactions have evolved more slowly than expected, however. With little price increase through August 2025 and sustained consumer buying behavior—as well as some US trade actions easing the tariff impact for some products—we now see 2025 as coming in at 15.97 million units, which would be just a 0.4% year-over-year decline.

However, we've adjusted the 2026 outlook to reflect a steeper decline of 2.8%, to 15.52 million units, versus the 2.5% decline for 2026 that was noted in the July 2025 forecast round.

US light vehicle sales (millions)



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Amid Changing Regulations, EV Adoption Will Remain Conservative

With a significantly relaxed regulatory environment expected in the United States, as well as the loss of consumer incentives, the long-term outlook for battery electric vehicles (BEVs) has faced a dramatic downgrade since the October 2024 forecast.

Greenhouse gases (GHGs) are regulated by the Environmental Protection Agency (EPA) while average fuel economy is regulated by the National Highway Traffic Safety Administration (NHTSA). With the passage of the One Big Beautiful Bill Act, CAFE fines are reduced to $0 for all previous model years where fines have not been applied. Therefore, though the regulations technically remain at time of writing, there are no teeth to noncompliance.

The current Biden-era EPA targets will not remain as the EPA will certainly propose new targets. The EPA has also proposed rescinding the Endangerment Act which classified greenhouse gas emissions (GHG) as harmful to humans and the public, and therefore able to be restricted by regulation. If that act is rescinded, the EPA will lose ability to regulate GHG tailpipe emissions at all.

As BEVs decline, hybrids and ICE pick up

Since the November election, a significant number of BEV programs have been delayed and/or cancelled due to the expected lack of BEV incentives and regulatory pressure as OEMs work to rebalance their long-term portfolios to better align with consumer adoption levels. In terms of vehicle affordability, however, this could provide a tailwind as hybrids and ICE have lower manufacturing costs and lower MSRP.

In S&P Global Mobility's July 2025 powertrain forecast, we expect North American production of BEVs to remain less than 20% through 2030.

In S&P Global Mobility's July 2025 powertrain forecast, we expect North American production of BEVs to remain less than 20% through 2030. Not all segments will maintain production at the same rate, and the high volume and largely profitable full-size pickup truck market may not even reach a 10% BEV rate in 2030.

With the significant drop in BEV volumes, our long-term forecast assumes most of that volume will shift to mild-hybrid electric vehicles (MHEV) and full-hybrid electric vehicles (FHEV). Though regulations may not force FHEVs, they are well received by consumers and offer material fuel savings with only a modest pricing increase. As they continue to utilize internal combustion engines (ICE), this requires no change of lifestyle by consumers and are well trusted.

In addition to BEV headwinds, plug-in-hybrid electric vehicles (PHEV) face pressure. Future regulations are not likely to push PHEVs, they remain an expensive solution due to the dual powertrains that must work seamlessly together, and they will also lose out on US federal purchase incentives in Q4 2025. OEMs who have already made such an investment in PHEVs are likely to continue this path. However, OEMs who have yet to develop PHEV transmissions may see the cost of development overshadowed by low volume expectations.

Complex tariff structures lead to difficult cost control and pricing decisions

The state of tariffs as of August 2025 means complexities for how any specific automaker's vehicle line is affected. There are varying tariff levels imposed by different countries, but how the tariffs interact creates a complex landscape. It is unrealistic to expect any vehicle to have 100% US content, so a zero-tariff vehicle is not currently possible.

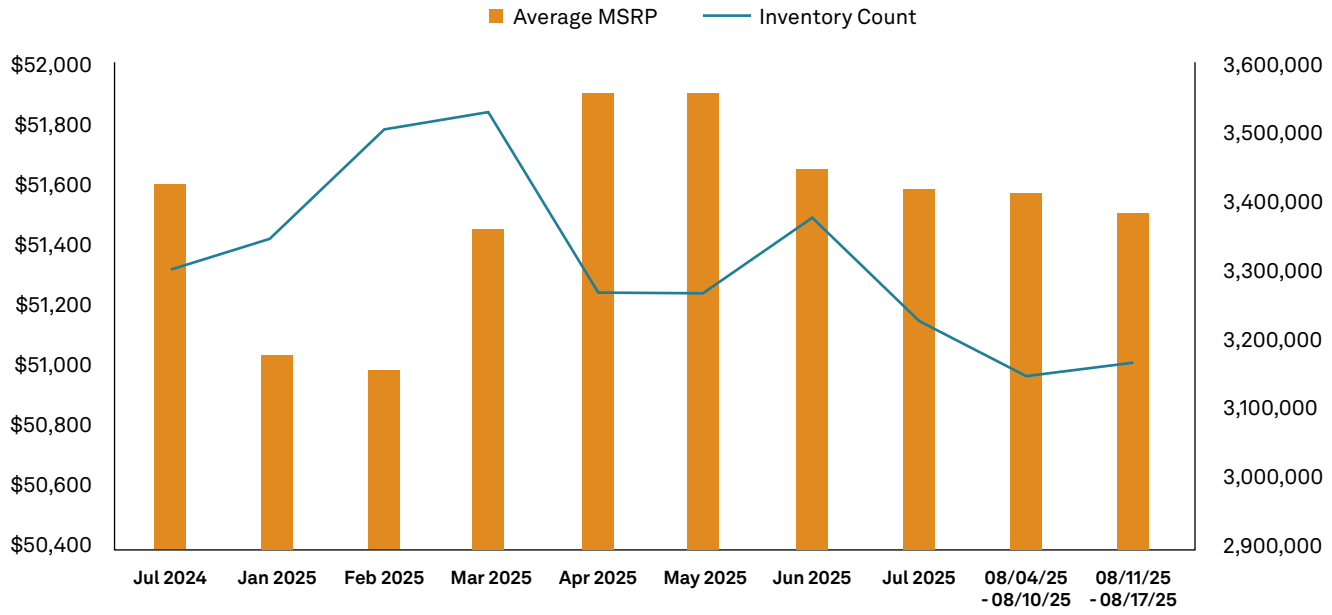
Each vehicle can see unique scenarios leading to varied cost increases, which affects pricing strategies and, therefore, market dynamics. Consumer willingness to accept a price increase that is described as a tariff surcharge remains an open question. This does not seem to be happening in other consumer goods industries, and it has been rare in the auto industry.

So far, production and pricing strategy changes have been small

Against uncertainties and the inability to absorb the full tariff amounts alone, OEMs will have to adjust production and pricing strategies, though the changes through August 2025 have been relatively small—and in fact, included some reductions in manufacturer's suggested retail price (MSRP).

Despite initial expectations of an immediate consumer pass-through, OEMs have so far taken more measured responses. According to S&P Global Mobility retail advertised inventory data, dealer-advertised inventory saw average MSRP increase slightly from February through May 2025; In June, when the tariffs were in place though non-tariff inventory was still widely available, average MSRP dropped to US$51,661. In the second week of August, it dropped again to US$51,513.

Average MSRP vs. Total Inventory Count, United States



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Pricing strategies will vary for 2026 model year vehicles

Throughout September and October, however, we expect to see carryover 2026 model year products filtering through to dealers. This is when pricing is more vulnerable to seeing tariff impacts integrated.

At the same time, most pricing announcements from automakers so far have reflected very modest, and typical, year-over-year increases for carryover models (all new vehicles typically carry higher price increases; it will be more difficult to discern the portion of cost increase attributable to tariffs).

The other form of adjustment that is percolating is a revision to model mix, including dropping model lines or trim levels. For example, Genesis put the slow-selling G80 electrified sedan on pause for 2026 model year, rather than sell it with an increased tariff cost combined with loss of a US federal tax credit for the EV.

Another example is the variety of changes throughout Audi's carryover 2026 model-year lineup. Audi increased some prices but made scheduled service for the first three years standard. On the vehicle trims with higher price increases, standard content was increased. Audi also dropped some less-expensive trim levels to focus on higher-MSRP versions.

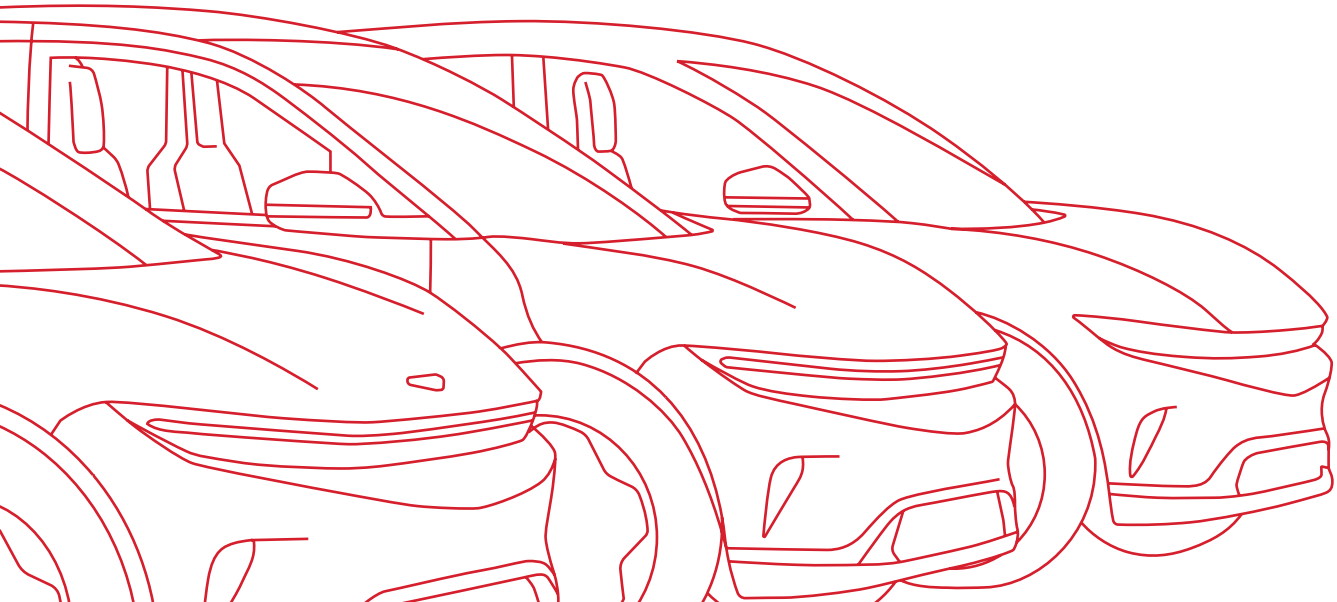
Pricing changes will impact consumer choice in the market

Consumer choice will be affected by the higher cost of vehicles as the new model year comes in; some may choose a different model, a different brand or a different segment. But they will not have the option of going back to the prior model year, once inventory is gone.

Financing or leasing a US$1,900 price increase could be as little as US$30 to the monthly payment, excluding cost of interest, over a 6-year loan. Depending on the buyer's situation, this is a change that does not put the vehicle out of reach. Dealers and automakers have financing and other incentives which will become increasingly important to smooth out the more modest price increases.

As the tariff situation evolves, manufacturers are constantly reassessing their approaches to pricing and consumer incentives. So far, manufacturers are shifting their focus to modifying consumer offers and incentives. This can make the payment landscape more complex than ever, as consumers navigate a variety of pricing and financing options.

Affordability has become an increasingly critical topic in this environment. Manufacturers are striving to determine how to best position themselves among their competitors while ensuring that their vehicles remain accessible to consumers. This ongoing challenge will continue as tariff rates become more firm in the coming months and automakers have more firm footing to make changes.



Key Factors OEMs Are Considering in the Coming Months

Tariff exposure and pass-through feasibility

For automakers and suppliers, determining exposure and tariff costs depends on production location and sourcing. The tariff exposure to a vehicle imported from outside Canada or Mexico is straightforward. Today, it is 27.5%, consisting of a 25% tariff through the Section 232 tariffs and 2.5% in a US-collected Most Favored Nation (MFN) tariff.

The US is in negotiations with most countries, and there are framework agreements with the European Union, Japan and South Korea which – if finalized – will take the rate down to 15%, including MFN. The US and the UK agreed to a framework – which is not a legally binding document – and then agreed to implement the framework ahead of final agreements and government approvals. Currently, the UK tariff on light vehicles is 10%.

The only thing that seems certain is the tariffs on these countries will ultimately be far higher than the 2.5% today. But still, the application of tariffs remains a fairly straightforward transaction for vehicle and parts imports.

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Vehicles imported from Canada and Mexico, however, face a more complicated scenario, with products that are compliant with the US-Mexico-Canada Agreement being treated differently. Currently, USMCA-compliant parts are traversing the borders with no tariffs. If an imported vehicle is USMCA-compliant, then the 25% tariff is imposed only on the non-US-sourced content. For example, if a vehicle produced in Canada has a manufactured value of $30,000, but the engine is sourced from the US and has a value of US$5,000, the 25% tariff is applied to $25,000 of the value. Vehicles and parts which are not compliant are tariffed at 25% — a simple, if expensive, transaction.

For vehicles produced in the US, there is a network of tariffs that apply to components and raw materials that are not USMCA-compliant. Most of these do not stack with the general goods tariffs which the US is imposing under the “reciprocal” tariff structure.

Today, a vehicle part identified in the US trade codes as an auto part from Germany is tariffed at 25%. Copper, steel and aluminum are tariffed at 50% in raw material form. But a copper, steel or aluminum derivative component is tariffed at 50% for the metal portion of the component’s value and the reciprocal rate for the non-metal portion; semiconductors are expected to be tariffed at 50% in the near term. The pending agreements with Japan, South Korea and the European Union should reduce the auto parts tariff to 15%, but the complexity relative to imported steel, aluminum and copper derived components remains.

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Because of the complexity on how tariffs translate down to specific production costs, pass-through decisions are complicated. It does not make sense to necessarily price based on the tariff exposure to a specific vehicle or model and pass the cost through.

Competitive pricing

Pricing decisions are not made in a competitive vacuum. Any pricing set by an automaker, along with the levers which they use to support the price via incentives, advertising and inventory management, can impact the competitive landscape.

Competitive pressures can also impact the feasibility of passing the cost through. These aren't consistent costs from one brand or model to another; if an automaker applies too large of a price increase, then price-sensitive consumers will simply not purchase the vehicle.

Still, a sale which has less margin than planned, or possibly at some level of loss, may be better than no sale, if there are other measures to offset the loss.

With the wild variability in the true cost increase, it is also difficult to communicate to a consumer. In addition, increasing costs and directly naming tariffs as the reason for the increase runs risk of negative attention from the US President, who has publicly stated that he will not "allow" companies to increase prices and recoup the costs of tariffs.

How those statements translate to business, consumer sentiment or what is legally possible may not be as important as the perception if a company is called to task for raising prices. It remains another rock below the surface that OEMs must navigate around.

Even once an automaker determines its preferred pricing structure, the products and pricing decisions sit within the competitive environment. It is not necessarily as simple as offering the least expensive in the segment, or the most expensive. In many ways, MSRP provides a starting point by which consumers whittle down the options they will consider, rejecting models above or below the bandwidth in which they are comfortable shopping. Adding a tariff fee where others are not, or increasing pricing more sharply, can change whether the MSRP is in a customer's bandwidth.

Beyond MSRP, there are incentives levers, as well as being able to adjust fees. Incentives can also be targeted by region.

Production: Sourcing flexibility

The most obvious way to avoid tariff costs is to increase vehicle assembly and sourcing of components in the US rather than importing. However, that is not necessarily the simplest, and it will mean an increase in manufacturing costs compared with the production and sourcing structure in place prior to US tariffs.

Changing sourcing requires investment, and the type of change will dictate how much the investment is and how long it will take. Vehicle assembly is also most efficient when the suppliers to that vehicle are as close as possible. Which means, among other things, that a production investment must come from suppliers as well as the automaker.

Choosing a site for a new assembly plant can easily be an eighteen-month process; once the first shovel is in the ground, a two-year construction period is common. Once the plant is up and running, and supplier park in place, getting up to full capacity can take another six months to a year.

General Motors and Hyundai have announced new assembly investments in the US, with a Hyundai Motor Group subsidiary also investing into a new steel mill. While the GM investment is into existing facilities to move products from one plant to another, it is also scheduled around natural vehicle lifecycle changes.

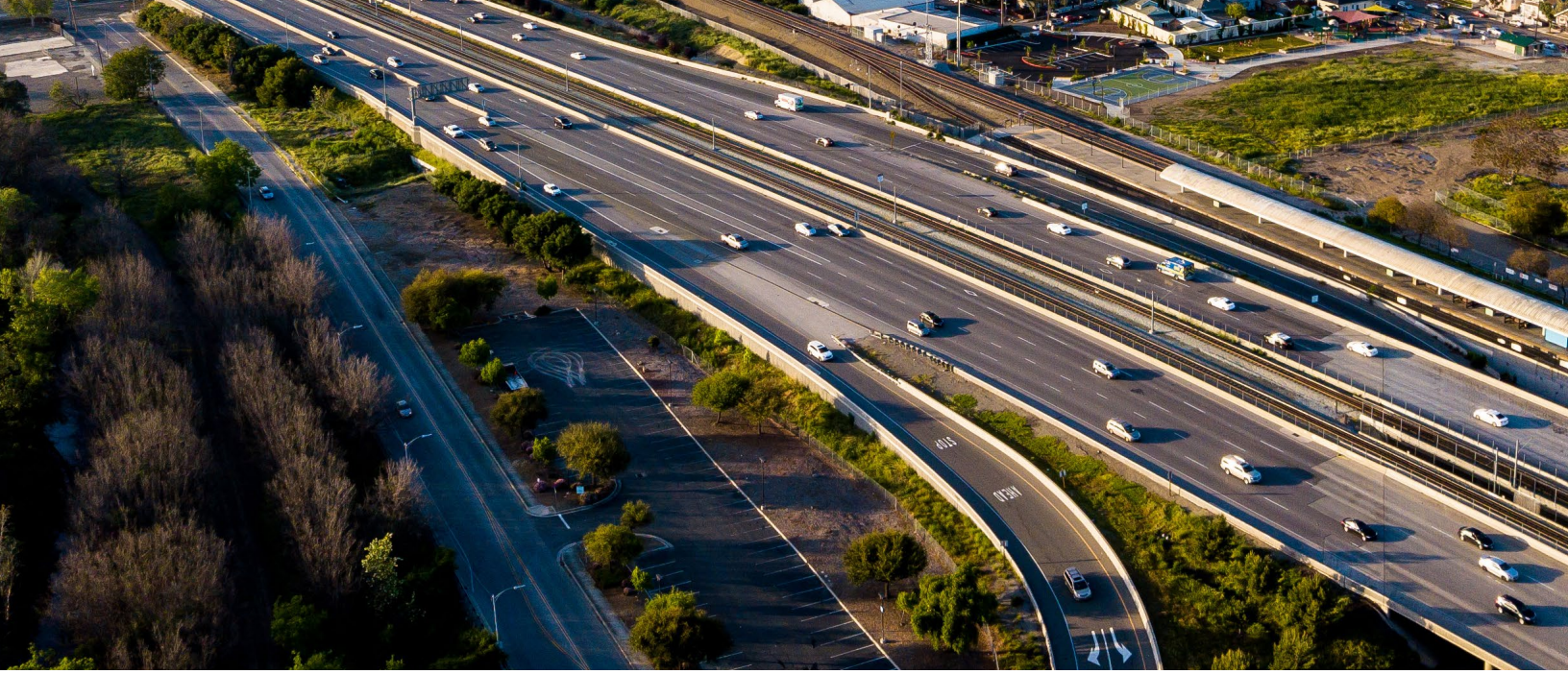
For automakers making decisions on manufacturing assets which are intended to be in use for 20 or more years, the lack of clarity poses a problem for investment decisions.

Moving tooling of an existing product is expensive; even as high as these tariffs are, it may not be cost-effective to move tooling for a vehicle late in its lifecycle to a US plant. New tooling and stamping dies are needed at the natural vehicle lifecycle change; it is more effective to spend once instead of twice for the same industrial machinery.

GM's new investment will not be online until the second half of 2027. Hyundai's investment increases production capacity in another two years as well. Changes can and will happen in the high-tariff environment, but they do not happen quickly.

For automakers making decisions on manufacturing assets which are intended to be in use for 20 or more years, the lack of clarity poses a problem for investment decisions. S&P Global Mobility sees the possibility for the high-tariff environment to persist with the next US president, regardless of party affiliation. Though possible, this scenario the likelihood of this scenario is impossible to know today.

Automotive manufacturing is a deeply interconnected system, particularly in North America. Unwinding it to refocus on a system which prioritizes US manufacturing will take time and will increase manufacturing costs, as well as require capital expenditures which were not in the plan prior to the Trump Administration. In combination with the cost of paying tariffs in the meantime, a significant burden has been placed on the auto industry.



Positioning in a high-tariff environment

The US is working to usher in a new era of a high-tariff environment. Even if key auto markets negotiate to a 15% tariff on autos and auto parts down from 25%, it is still in most cases, six times what they paid previously.

The longer the negotiations continue, the more the uncertainty extends disruption. We said early in this process that trade and regulatory stability are the two elements most important to this industry. It remains true, the situation remains unstable, but the industry has weathered it so far.

Automakers have announced significantly lower profits and high immediate tariff impacts, but for now they are looking to leverage a global business, cut costs and make model-level adjustments to manage the new reality.

Within the US market, automakers more exposed to import-heavy product ranges will work toward solutions, including working with other automakers to secure some US sourcing. Those solutions will take time to implement. In some cases, it may ultimately prove that absorbing a 15% tariff to remain in the US market, albeit at a lower margin, may be preferable to leaving or to building a new plant and supply chain.

The industry has demonstrated resiliency through massive change over the past six years and, at least so far, consumer purchasing has remained strong despite signals for consumer confidence degradation in 2025. The tariffs will have a long-term effect on sourcing decisions and an immediate effect on pricing decisions.

Though the effect on pricing may never recede, by the end of 2027, the new pricing structures are likely to be the new normal. Automakers who work with agility will manage best.

As the automotive industry navigates this complex tariff landscape, automaker strategies will have lasting implications for their market positioning. The interplay between tariffs, pricing, and consumer incentives will continue to shape the competitive landscape.

The strongest of automakers and suppliers have worked through the challenges of the last six years by remaining agile and continuously reassessing their strategies to ensure they meet the demands of an ever-evolving market. As we move forward, the ability to continue to adapt to complexities will be paramount for success in the automotive sector.

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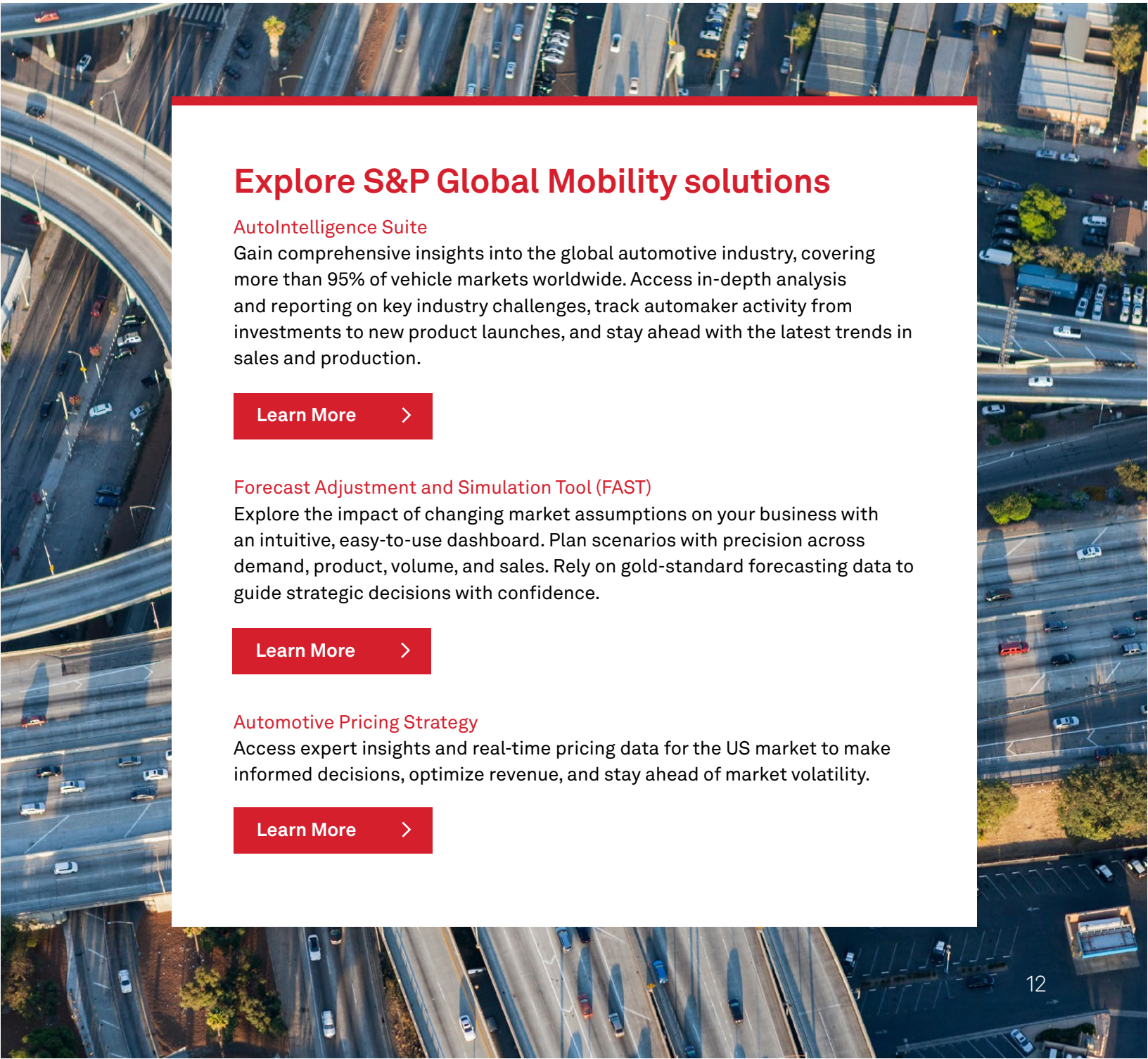

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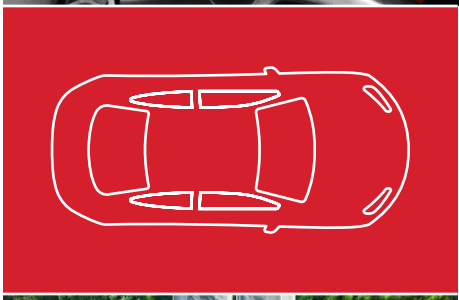

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