

Industry trends – Automotive

US tariffs trigger a contraction of global automotive production in 2025 and 2026

May 2025



Global overview

Disruption of supply chains and rising costs due to tariffs

We expect global motor vehicles and parts production to contract by 1.7% in 2025 and by 2.1% in 2026 as US tariffs hit the sector. Compared to the March 2025 baseline, global automotive will see 5.9 percentage points lower output growth in 2025-2026. Despite some respite announced by the White House at the end of April, the 25% tariffs targeted towards automotive imports will disrupt the regional and global supply chains, increasing the costs of imported components and materials..

The consequences will be negative for producers and suppliers in the US and elsewhere. In 2024, Japan, South Korea and Germany were the top automotive suppliers to the US after Mexico and Canada in terms of finished vehicles and parts. Original Equipment Manufacturers (OEMs) and auto parts producers based in these markets are likely to be significantly affected.

In addition to the targeted automotive tariffs, the current US trade policy will lead to a global economic slowdown, despite the recent withdrawal of some levies. Tariffs and the associated economic uncertainty affect GDP growth through lower demand

and increase inflation through higher prices. In many countries weaker consumer confidence will affect demand for big-ticket items like cars.

Among regions, the slowdown is largest in North America (see chart overleaf). Mexican and Canadian imports represent 15% and 8% of US vehicles sales respectively, meaning the scope for average vehicle price increases is significant. Currently, components cross the borders between the US, Mexico and Canada several times in the production of one vehicle. This leaves vehicle and component manufacturers operating across North America exposed to significant downside risks over the short to medium term.

Despite some issues, the long-term outlook for EV sales is still good

Currently electric vehicle (EV) sales are facing headwinds in the US. The government is expected to roll back the EV tax credits introduced under the Inflation Reduction Act, reducing sales incentives. That said, we expect global hybrid and EV sales to account for 59% of global light vehicle sales by 2030, up from 10% in 2020. In Europe the shift towards electrification will accelerate in the coming years. In China, the EV transition maintains a strong momentum, and Chinese EV exports have grown. However, in 2024 both the US and the EU imposed punitive tariffs on Chinese EV imports.

Industry performan	ce forecast				
Europe		Asia and Oceania		Americas	
🚱 Austria	Netherlands	🛆 Australia	Phillippines	谷 Brazil	Excellent The credit risk situation in the sector is strong / business
🥵 Belgium	Seland	🔄 China	Singapore	谷 Canada	performance in the sector is strong compared to its long-term trend.
谷 Czech Republic	🔗 Portugal	🛆 Hong Kong	🛆 South Korea	🛆 Mexico	Good The credit risk situation in the sector is benign / business performance in the sector
🙆 Denmark	Slovakia	🛆 India	🔁 Taiwan	🛆 USA	is above its long-term trend.
S France	🛆 Spain	🛆 Indonesia	ち Thailand		The credit risk situation in the sector is average / business performance in the sector is stable.
Germany	🛆 Sweden	🛆 Japan	🛆 UAE		Poor The credit risk in the sector
🤣 Hungary	Switzerland	🛆 Malaysia	🔁 Vietnam		is relatively high / business performance in the sector is below its long-term trend.
合 Ireland	S Turkey	🛆 New Zealand			Bleak The credit risk in the sector is poor / business
😓 Italy	🔅 ик				performance in the sector is weak compared to its long-term trend.

Industry trends Automotive

Motor vehicles and parts output	2023	2024	2025*	2026*
Global	11.6	0.5	-1.7	-2.1
Asia Pacific	14.1	2.4	<u>0.4</u>	-3.2
European Union & UK	13.2	-5.1	-3.7	0.4
North America	7.2	0.7	-5.8	-3.1
Year-on-year, % change /* Source: Oxford Economics				

Source: Oxford Economics Strengths and growth drivers

Emerging markets. Low vehicle density and a growing middleclass in emerging markets is driving demand, especially in Asia.

Green transport. New model launches and ranges, decreasing prices, purchase incentives and CO2 reduction policies will drive demand.

New technologies. McKinsey predicts the autonomous driving car market could reach sales of USD 400 billion by 2035.

Global registration of new light vehicles	2023	2024	2025*	2026*
All types	9.5	3.7	1.2	2.6
Combustion engine vehicles Electric vehicles	<u>1.1</u> 32.2	-6.9 30.3	-6.5 22.9	-6.7 16.9
Hybrid vehicles	22.3	22.6	19.2	5.7

Year-on-year, % change /*forecast Source: Oxford Economics

Constraints and downside risks

Geopolitical risks. The sector relies on a global network of suppliers and is vulnerable to protectionism, tariffs and disruptions.

Advanced market demographics. High vehicle density and aging populations imply a decrease in future demand.

New players. Tech companies and start-ups are disrupting the EV market, creating new competitors for traditional automotive manufacturing.

Supplier obsolescence. Manufacturers of combustion engine vehicle parts will need to change or face extinction.



Automotive outlook Americas

Automotive production	2023	2024	2025*	2026*
Brazil	-8.1	14.5	1.0	4.9
Canada	17.3	-9.3	-6.1	1.0
Mexico	8.4	1.2	-8.4	-1.7
USA	6.1	1.3	-5.0	-3.8

Year-on-year, % change /*forecast – Source: Oxford Economics

🛆 USA

Decreasing production and price increases and due to tariffs

While 25% tariff on all imported vehicles and parts will likely have the effect of reshoring some automotive production to the US, it will also raise the cost to US manufacturers and households. This will happen despite some respite to the industry sector announced at the end of April by the US administration. Those are small rebates on US-made vehicles to help offset the cost of tariffs, while carmakers will also be exempt from the blanket US tariffs on steel and aluminium..

Currently we expect US vehicle production to contract by 5.0% in 2025. The US automotive sector depends on regionally and globally integrated supply chains, with many components crossing multiple borders before final assembly. Disruptions from tariffs increase production costs, reduce supply chain efficiency, and ultimately impact longterm sector competitiveness.

On average, the tariff applies to nearly one third of the price of a car. Increased component prices will raise the cost of production per vehicle and will likely be passed onto consumers. US OEMs are also likely to raise prices in the face of reduced foreign competition. The price increases will weigh on demand for both imported and domestically produced vehicles. Another issue dampening demand for big-ticket items like cars will be lower US economic growth and weaker consumer confidence. We expect credit risk to increase along the value chain, in particular in the supplier segment. Several foreign automakers have announced formal plans to invest in US production. Such large package investments are typically planned several years in advance and are supported by a stable policy environment. We believe that the uncertainty regarding tariff policy seen in recent months may lead some automotive producers to delay decision making.

Canada and Mexico

A steep automotive production decline

One of the world's most interconnected automotive supply chains is that of Canada and Mexico with the US, which benefits from over three decades of NAFTA/USMCA integration. In 2024, about 2.7 million vehicles, or nearly two-thirds of all vehicles produced in Mexico, were exported to the US. In the same year, more than 90% of vehicles produced in Canada were exported to the US.

The introduction of US import tariffs and regulatory barriers will raise production costs, lengthen supply timelines, and reduce output and demand. Vehicles and parts from Canada and Mexico that are compliant with the USMCA trade agreement (75% of all parts in the finished vehicle must originate from the region) will only be tariffed on their non-US content. However, it will take time for the US government to establish a process for examination. We expect Canadian and Mexican motor vehicles and parts production to contract by 6.1% and 8.4% respectively in 2025. While some manufacturers and suppliers may seek to move operations to the US in order to bypass tariffs, this will not possible across the board.



Ind	ustry performance forecast
A	Brazil
	Canada
	Mexico
	USA
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	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
	Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
B	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Automotive outlook Asia Pacific

Automotive production	2023	2024	2025*	2026*
China	14.0	9.5	-2.3	-4.0
India	16.5	5.5	1.3	1.5
Japan	17.0	-7.3	6.6	-4.1
South Korea	14.2	-3.2	-3.5	-2.8

Year-on-year, % change /*forecast - Source: Oxford Economics

🛆 China

A slowdown in 2025 after robust growth in the past two years

After robust growth in 2023 and 2024, we expect Chinese automotive production growth to slow down in 2025. While automotive production and sales increased by 14.5% and 11.2% in Q1 of 2025, weaker economic growth and lower consumer confidence will weigh on domestic car sales in the coming months. However, stimulus measures such as increasing scrappage incentives support the industry. Additionally, the market has seen a series of price-competitive model launches this year, supporting sales.

Due to the small number of car exports to the US, the sector is relatively unaffected by the US tariffs on automotive imports. More serious are the EU import tariffs on Chinese EVs (ranging from 17.8% to 45.3%), that have curbed China's rapid expansion in the European market. While Chinese EV brands maintain a price advantage, the tariffs limit export growth.

Robust growth of the EV segment, but also higher credit risk

The Chinese automotive market continues its transition towards greater EV production, with EVs overtaking internal combustion engine (ICE) sales in the passenger car segment for the first time last year. The government maintains its strong policy support for EV adoption, including subsidies for consumers and investments in charging infrastructure. By 2030, EVs are projected to represent 65% of all new car sales in China, while ICE vehicles will decrease to 27%.

Late payments are common in the Chinese automotive sector, reinforced by the strong negotiating power of manufacturers visà-vis suppliers. The booming EV market has attracted many new players, which has led to fierce competition and price wars, putting margins of producers and suppliers under pressure. Both traditional and emerging players keep cutting prices or launching limited-time promotions in order to win more market share. A lot of smaller private-owned businesses in the EV segment are not yet breaking even due to high input costs and are heavily reliant on external funding by investors. Without continuous capital flow, those firms could quickly fail.

合 Japan and South Korea

Heavily impacted by US import tariffs

The US is the most important market for Japan and South Korea automotive exports, leaving both particularly vulnerable to the 25% tariffs. Automotive exports to the US account for 6% of total exports for each country. Compared to the March 2025 forecast, automotive production in 2025-2026 is expected to decrease by 5.6 percentage points in Japan and by 5.3 in South Korea. The hit to the automotive sector will spill over to other sectors, with bigger implications for the entire economy. However, shifting more production to the US could potentially mitigate some of the damage. And the strength of Japan's hybrid sector could benefit in the coming years, as the Trump administration rolls back some of the incentive schemes for EV uptake.



Industry performance forecast Australia China Hong Kong India Indonesia Japan Malaysia New Zealand Phillippines Singapore South Korea Taiwan Thailand UAE Vietnam Excellent :ö: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend. The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend. Fair The credit risk situation in the sector is average / business performance in the sector is stable. The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend. The credit risk in the sector is poor / business performance in the sector is compared to its long-term trend. Ç,

Automotive outlook **Europe**

Automotive production	2023	2024	2025*	2026*
France	11.6	-13.5	-3.0	6.4
Germany	13.1	-5.7	-5.0	-2.6
Italy	6.6	-21.4	1.7	14.2
United Kingdom	21.1	9.3	-7.1	-1.1

Year-on-year, % change /*forecast – Source: Oxford Economics

Europe

Higher credit risk for small and mediumsized suppliers

After decreasing 5.1% last year, we expect automotive production in the EU and the UK to contract again in 2025, by 3.7%. Economic performance in Europe remains subdued, and new vehicle purchases are likely to stay depressed in the coming months, as consumers put off big-ticket item expenditures. In 2026 only a modest 0.4% rebound is forecast.

As suppliers are dependent on the car manufacturers' sales plans, their prospects have dimmed. We observe shrinking margins and increasing payment delays and insolvencies in major markets like Germany, Italy and the UK. Additionally, the shift away from internal combustion engines has started to reshape the industry and its competitive structure in Europe. Many Tier 2 and Tier 3 suppliers could lack the technological or financial means, or both, to climb up the value chain, and may be forced to leave the market in the coming years.

US import tariffs and Chinese EV competition pose downside risks

The US is the number one export destination for EU-made cars, leaving the industry highly vulnerable to tariff threats. In 2023, 20% of the EU's automotive export value came from US sales. The German and Italian automotive industries, and supply chains in CEE countries like Czech Republic and Slovakia, are most at risk. We estimate that German and Italian automotive exports could decrease by over 5% in 2025 as a result of US tariffs.

The combination of reduced export demand, higher input costs, and shrinking profit margins would severely hurt the competitiveness of the German and CEE automotive industries, already under pressure. Redirecting exports to other markets is, at best, a partial solution. Differences in market demand and consumer preferences, logistical barriers, regulations and rising competition from the likes of China and South Korea mean it is unlikely that lost US sales can be fully offset in the short term.

The current advantage of Chinese EV manufacturers compared to their European peers is that they offer cheaper models and tend to be quicker at rectifying faults and adapting to market conditions. To counteract this. domestic manufacturers would have to offer more EVs in the low and medium price segments in the near future. In order to protect the European car industry, the EU has imposed punitive tariffs on Chinese EV imports, based on alleged unfair state subsidies. EU tariffs may slow the momentum of Chinese imports, giving European producers a window to launch a new generation of more competitive vehicles. However, Chinese OEMs could also accelerate their plans to localise production in Europe.





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