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Asset Smarter

SMARTER PERSPECTIVE: TARIFFS

Tariffs Are Creating a Critical Inflection Point for the Automotive Industry in 2025

By Keith Spacapan

March 2025 The automotive industry is at a crossroads, faced with a combination of pending tariff actions, global economic uncertainty, and a tenuous future for the once highly touted electric vehicle (EV) market. Asset-based lenders with exposure to borrowers across automotive manufacturing and supply chains should take a markedly proactive approach to assessing risk and providing guidance to their clients during this period. Understanding the implications of tariffs, inflationary pressures, production shifts, and supply chain instability will be critical in managing and mitigating financial exposure in this evolving landscape.

The Role of Government Intervention

No major automotive manufacturer or supplier has been actively seeking government intervention through tariffs. Historically, however, the industry has been receptive to regulatory measures that improve efficiency and safety while creating a level playing field. For example, Corporate Average Fuel Economy (CAFE) standards, introduced in response to the 1970s oil embargo, led to significant advancements in fuel efficiency. Likewise, occupant safety regulations requiring seatbelts and airbags helped standardize industry safety protocols. These regulations, while requiring compliance costs, were ultimately accepted because they fostered innovation and fairness across the industry. In contrast, tariffs tend to introduce a new layer of unpredictability, often with a range of unintended consequences.

The Cost of Inflation and Affordability Challenges

It is widely recognized that one of the most immediate effects of tariffs is typically inflation. Like sales taxes, tariffs are a regressive form of taxation that tend to disproportionately impact those consumers who can least afford the burden. Before the new tariffs were even on the table, the U.S. automotive market had already been struggling with affordability, with average vehicle prices having climbed significantly over the past decade. Many of the most affordable models available today are imported. If tariffs are imposed, automakers will need to either absorb the additional costs or pass them on to consumers, further exacerbating affordability concerns. This could lead to declining demand, especially in segments that rely on price-sensitive buyers, which would directly impact dealerships and lenders reliant on strong vehicle sales.

The Cost of Production and Global Sourcing Strategies

Automakers have long structured their supply chains under a relatively free-market model, prioritizing cost efficiency. Many components are sourced globally, and final assembly locations have been strategically chosen based on labor costs, trade agreements, and logistics.

Tariffs that remain at or below 25% may primarily contribute to inflationary pressures, but if they increase beyond this threshold, manufacturers may be forced to reassess their sourcing and production strategies.

For reference, we can look to a historical example in New Zealand, where high import tariffs once incentivized local vehicle assembly. When tariffs there fell below 25%, however, the economic rationale for domestic production weakened, thereby favoring importation. It is possible that we could see a similar situation play out in the U.S. As for the near-term, history has shown that ramping up domestic capacity is neither quick nor cost-effective; and a month's lead time – as recently granted by the administration via its delay of tariff implementation until April 2 of this year – cannot alter that fact. And even though the U.S. does have some underutilized production capacity, the high cost of restarting and maintaining these facilities has traditionally made offshore production a more attractive option, albeit one that may not be available to the car companies for now. Lenders should be cautious of the financial strain this could place on manufacturers and suppliers caught between tariffs and shifting production models.

The Cost of Uncertainty and Supply Chain Disruptions

Automotive production is a highly synchronized process that depends on stability. Disruptions at any level—whether in raw material extraction, component manufacturing, assembly, or distribution—can have cascading effects. Recent history provides ample evidence of how external shocks can paralyze production. The Japanese tsunami, hurricanes in the southern U.S., and the COVID-19 pandemic have all exposed the fragility of automotive supply chains. Tariffs introduce another layer of uncertainty by altering cost structures, forcing companies to renegotiate contracts, and requiring them to reconsider sourcing strategies on short notice.

For asset-based lenders, uncertainty is a significant risk factor. Borrowers dependent on just-in-time inventory models or international suppliers, whose production or shipments could be disrupted by any number of factors, may ultimately face increased costs and delays, impacting their ability to meet financial obligations. Lenders should closely monitor how their automotive borrowers adapt to potential, upcoming supply chain shifts, particularly those reliant on Chinese, Canadian or Mexican imports, which are at the center of current auto tariff discussions.

The Cost of a Re-Booting Supply Chain

The semiconductor shortage during and after the COVID-19 pandemic demonstrated how difficult it can be to restart supply chains once they are disrupted. Unlike turning a switch on and off, supply chains require long-term planning, investment, and coordination. If tariffs force manufacturers to shift production locations or realign sourcing strategies, the transition period could be fraught with inefficiencies and additional costs. Lenders should evaluate whether their borrowers have contingency plans in place to mitigate potential production shutdowns or slowdowns.

The Cost of Retaliation and Economic Spillover

As history has shown, tariffs rarely exist in isolation and often trigger retaliatory measures from affected trading partners. The first wave of tariffs against China under a previous administration led to counter-tariffs on American agricultural products, significantly impacting U.S. farmers. A new round of tariffs in 2025 could lead to similar retaliatory measures against U.S. exports, affecting not only automakers but also other industries interconnected with the automotive supply chain. Lenders should consider the broader economic impact across their portfolios, with emphasis on those with cross-border exposure.

Alternatives to Tariffs

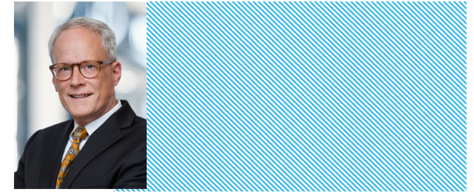
While tariffs provide immediate economic protection, it is widely agreed that they are an imprecise tool with widespread ramifications. There are alternative measures that could achieve similar objectives with fewer disruptions. For instance, transfer pricing guidelines could ensure that sufficient taxable revenue is recognized in the U.S. for foreign imports. Strengthening local content requirements and enhancing vehicle safety standards could also create incentives for domestic manufacturing without the blunt economic force of tariffs.

Conclusion – How Lenders Can Prepare

Without question, the automotive industry is facing an inflection point, with tariff uncertainty compounding existing market challenges. Ford CEO Jim Farley has publicly opposed new tariffs, an unusual move in an industry that typically avoids direct political confrontation unless absolutely necessary. It is worth considering that his position signals the seriousness of the issue and suggests that other industry leaders may be waiting for further details in the weeks ahead before voicing their concerns as well. Concerningly, by the time all of these details do become available, it may be too late for the industry to react effectively to ensure its future.

We advise that asset-based lenders take a highly proactive approach in assessing the risk exposure of their automotive borrowers right now and in the months ahead. This includes closely monitoring regulatory developments, evaluating the financial health of manufacturers and suppliers, and engaging with borrowers to understand their contingency plans. Lenders should educate themselves on trade policy and supply chain dynamics to provide informed guidance. Offering flexible lending terms or restructuring options for affected borrowers may also be worth considering on a case-by-case basis to successfully navigate this period of uncertainty. Ultimately, the key to success lies in preparation. By staying ahead of these developments, lenders can better assist their clients in mitigating risk and ensuring long-term financial stability in an increasingly complex automotive landscape.

ABLs and manufacturers alike have achieved a high level of success across the automotive and other numerous industries in partnership with Hilco Valuation Services based upon our disciplined process, industry-leading bench strength, and systematic, collaborative approach. This success is a testament to our commitment to excellence. By understanding past cycles and performance, documenting historical data points across sectors and industries, and continuously exploring and assessing the path that is being paved ahead, Hilco Valuation Services consistently delivers reliable, accurate, and actionable valuations for our valued customers. We encourage you to reach out to our team to discuss any current or developing situations you may be facing. We are here to help.



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Keith has been directly involved in the automotive industry for more than 30 years, including 15 years with General Motors. Career highlights include Product Line Executive of the Big Block V8, Finance Director of Powertrain Manufacturing, and Finance Director of Holden New Zealand. Keith left General Motors to serve as the Chief Executive of a Tier II automotive supplier and has since worked with a wide range of original equipment manufacturers and suppliers. These dual perspectives, finance & operations / original equipment manufacturing & related suppliers, foster a comprehensive understanding of the dynamics that impact asset value. For more information, contact Keith at kspacapan@hilcoglobal.com or 847-313-4722.