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TRUMP BUMP

UNCLEAR AS PRESIDENCY RETRENCHES

Friend or foe? From the manufacturing floor to the dealer showroom, the automotive industry has nervously pondered that question since the surprise election last fall of President Donald Trump.

Trump's campaign was run on a pro-business platform, pledging to rewrite overly onerous regulations and complex corporate-tax codes, as well as tear apart international trade agreements considered unfair to national interests and, perhaps most controversially, penalize manufacturers choosing to build products overseas cheaply and sell them back home for bigger profit.

Trump alongside GM's Barra, FCA's Marchionne in Washington.

The reforms would spur 25 million new jobs over the next decade and return the country to 4.0% annual economic growth, he promised in his platform message of making America great again.

"I am going to fight for your jobs," the former real-estate tycoon and television personality reiterated during a post-inauguration rally at a future-mobility proving ground outside Detroit, which drew executives and employees from the Big Six automakers in the U.S.

It was music to the ears of automakers, which in the first few weeks of Trump's presidency were criticized for expanding low-cost production, especially in Mexico, because he appeared to soften his criticism at the rally. In one-on-one meetings with the Detroit Three, he again put forth a friendly face, and has notably added industry heavyweights such as General Motors Chairman and CEO Mary Barra to advisory positions.

"We have more in common than we do differently," Barra famous-

Trumps speaks after signing EPA executive order in March.

ly declared at the North American International Auto Show in January.

But more recently Trump appears to be fighting for his own job rather than those of his constituents, a sensational struggle played out almost daily on the steps of the White House and debated nightly by political pundits. The uncertainty over Trump's future appears to have thrown a wet blanket on actions across the administration and left the auto industry, which falls into the crosshairs of the president's economic plan, in a strategic lurch.

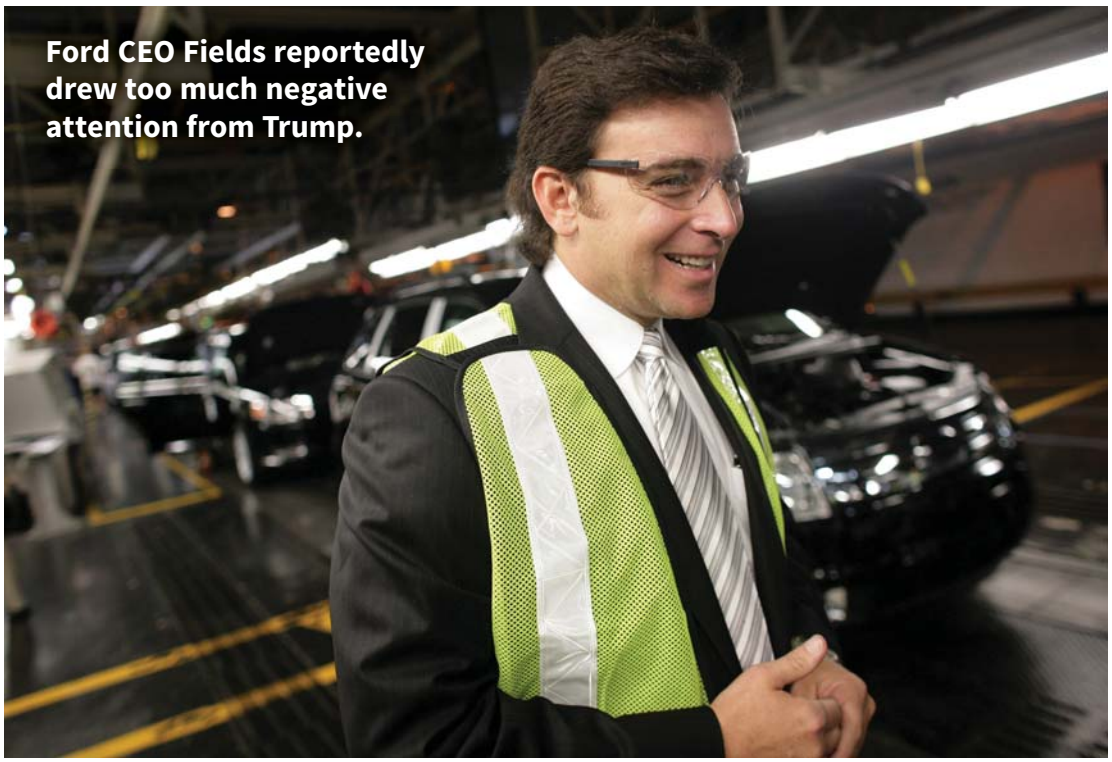
"Things are being held up by the drama of the presidency and other complications on his plate," says Frank DuBois, a professor of international business at American University in Washington and author of the annual Kogod Made in America Auto Index.

"It is an administration that talks a lot but does not take a lot of action," DuBois says.

THE FIRST 100 DAYS

Trump's domestic agenda indeed has met tough sledding. The president's promise to roll back the Affordable Care Act, a piece of landmark legislation from his predecessor Barack Obama, stalled again last month and according to reports likely will not see additional action by Republicans and the administration until later in the summer.

Although the president made history with his successful

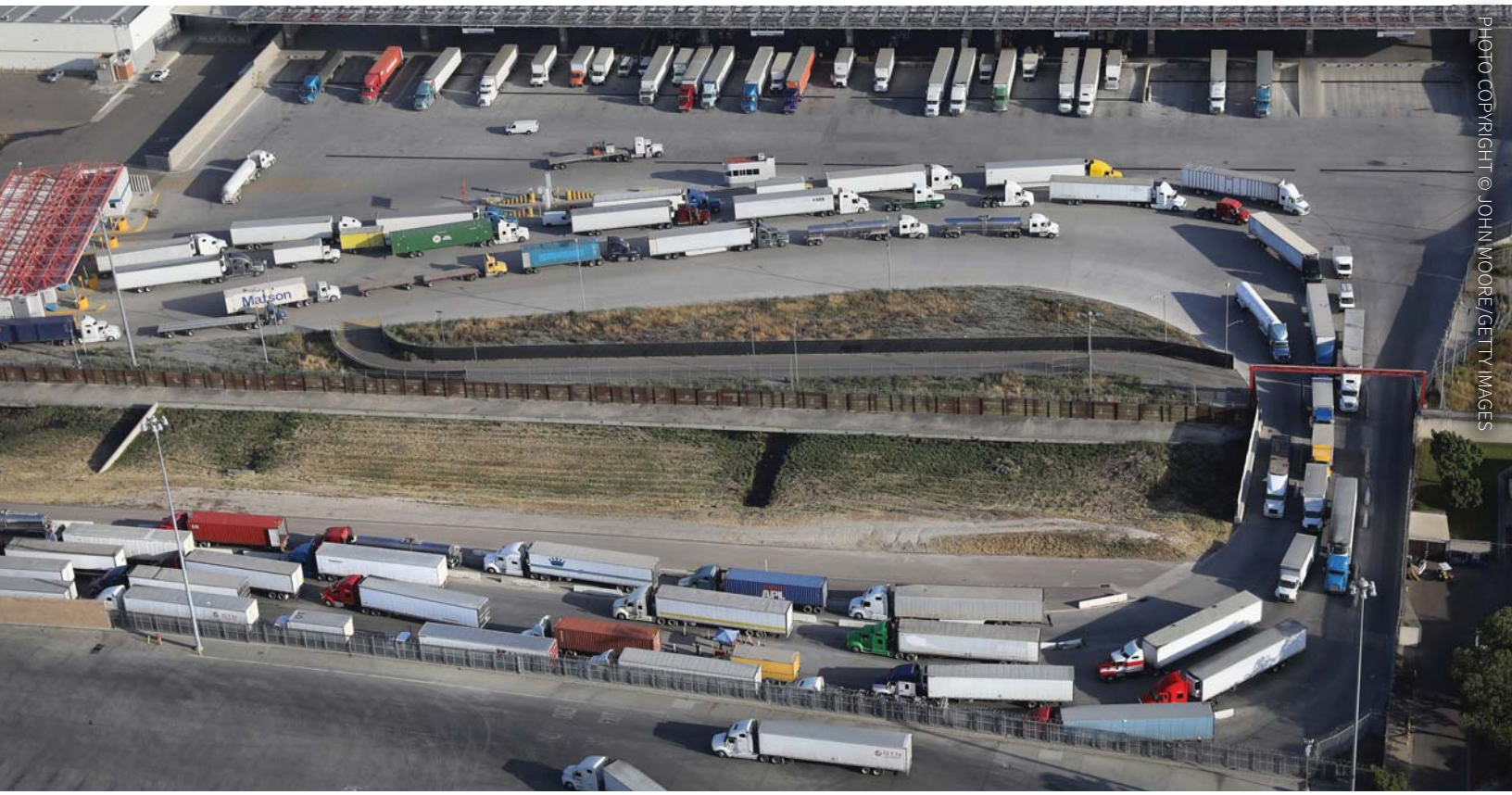


Ford CEO Fields reportedly drew too much negative attention from Trump.

Supreme Court appointment of Neil Gorsuch and exited the Trans-Pacific Partnership free-trade agreement disdained by the industry for its lack of authority over currency manipulation, he has backed off a campaign pledge to build a wall to stem Mexican immigration. Perhaps most sensationally, turmoil over the Trump team's connections with Russia and the former Cold War opponent's alleged election tampering has some lawmakers whispering the word impeachment.

The progress of Trump's first 100 days, which he characterizes as "game-changing," arguably has fallen short of his campaign's expectations and many experts think the administration is struggling with the difficulties of governing.

The industry's first indirect victim of the Trump presidency was claimed late last month when Ford CEO Mark Fields was fired. One of Fields' key missteps reportedly was touting a plan to move some production to Mexico from the U.S. without clearly stating that those products would get a replacement to preserve



Freight trucks snake their way between San Diego and Mexico.

American jobs. Trump mercilessly blasted Ford on Twitter.

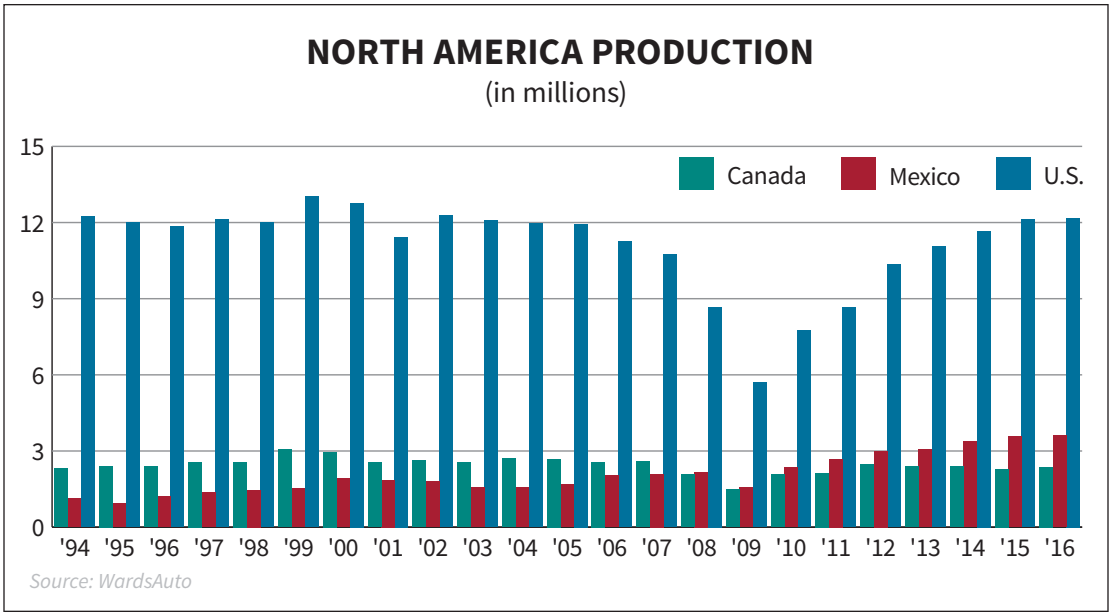
Mike Jackson, CEO of AutoNation, the biggest dealer chain in the U.S., takes a pessimistic view of the Trump era.

"I didn't vote for him, because I didn't think he had the temperament to be president of the United States," Jackson told a forum at the New York International Auto Show in April. "We're seeing that now. One day he acts like a 70-year-old man, the next day, like a petulant 7-year-old."

OEMs LEVERAGE NAFTA

The perceived unevenness of Trump's governing has left the auto industry in the dark over policy actions that could, either favorably or unfavorably, affect business planning years into the future.

"Manufacturers must be pulling their hair out," says Bruce Belzowski, managing director-Automotive Futures at the



University of Michigan's Transportation Research Institute. "Product planners are making a number of different scenarios, including the possibility that things might remain the way they are."

Most notably among those anxiety-raising policies is a renegotiation of the 23-year-old North American Free Trade Agreement between the U.S., Mexico and Canada. Proponents say the tariff-free zone has created billions of dollars in new investments on the continent from local and foreign auto companies by opening up best-cost options for manufacturing.

Shifting those operations would wreak havoc within OEM manufacturing footprints and their complex supply chain, they say, despite Trump's suggestion his administration would motivate companies to move production to the U.S. by easing regulatory hurdles such as obtaining environmental permits.

"The question about repatriation of the manufacturing footprint into the United States has got monumental consequences to the industry overall," Fiat Chrysler Automobiles CEO Sergio Marchionne told Wall Street analysts earlier this year. "There are repercussions that go well-beyond FCA."

Trump leads post-inauguration rally outside Detroit.

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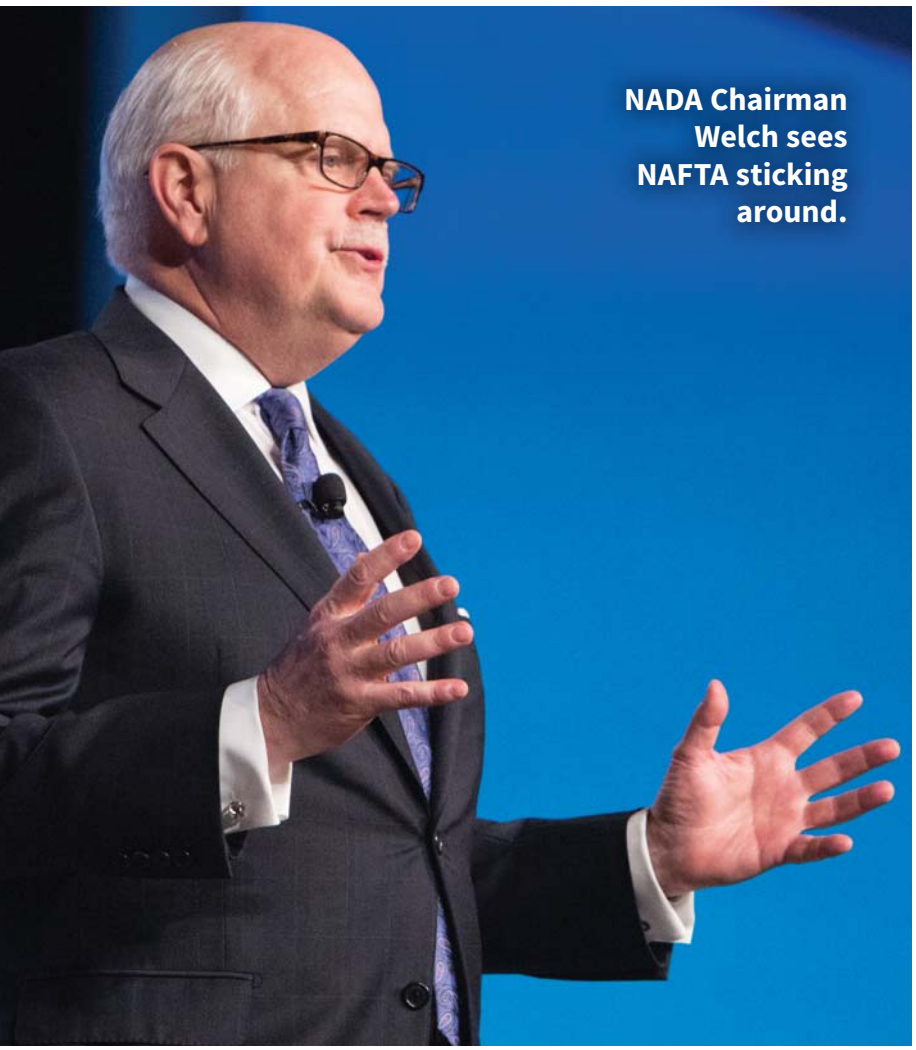
According to *WardsAuto* data, the U.S., Mexico and Canada combined to build more than 17.8 million light vehicles last year. Canada, not Mexico as Trump suggests, saw the greatest increase last year with output rising 5.2%. Mexico followed with a 2.5% gain, and U.S. builds grew 1.5% compared with 2015.

The capability to source the mix of products consumers demand from the best-cost location has sent automaker and supplier earnings to record highs in recent years. GM in 2016 earned $9.43 billion and Ford brought home $4.6 billion as new-vehicle sales peaked, while FCA raked in $1.9 billion specifically on the strength of wider profit margins in North America.

SUPPLIERS REAP PROFITS

Shareholders have enjoyed the boom, too, although NAFTA did not insulate the industry from the Great Recession when GM and



NADA Chairman Welch sees NAFTA sticking around.

Chrysler bankruptcies wiped out many investors.

NAFTA has become woven into the fabric of every parts supplier's business. It is a generally accepted industry estimate that parts and components may cross NAFTA country borders upwards of eight times before final assembly in the U.S., Mexico or Canada.

To accommodate the back-and-forth activity, multinational suppliers have joined their customers by investing billions of dollars to set up shop next to automaker assembly plants in NAFTA countries, while border-town maquiladoras have become the second-largest industry for Mexico behind tourism.

According to the consultancy Oliver Wyman, suppliers of all sizes have benefited from the current dynamic, as parts makers grew an average of 6.9% annually between 2011 and 2015 with an average EBITDA margin of 11.9%.

"We believe in free and fair trade," Bosch North America President Mike Mansuetti tells *WardsAuto*. "NAFTA is vitally important to the supply chain."

Stefan Sommer, CEO of auto-parts-making giant ZF, sees free-trade agreements as economic engines, not a drain on millions of U.S. jobs as Trump claims.

"If you look into the development of all economies in the world, free trade, taking away barriers, enlarging markets – (they) have good positive devel-

Congressman Ed Royce (left) meets with AIADA leadership in Washington.

opments that are beneficial to everyone in those markets," he says. "It's not just an opinion. This is what you see, as a matter of fact, from all economic developments in the world."

DEALERS ENJOY WINDFALL

U.S. dealers also have enjoyed a windfall from record new-vehicle sales in the NAFTA era, thanks specifically to the pricing and product-mix flexibility NAFTA affords.

According to the National Automobile Dealers Assn., dealer new-vehicle sales topped $995 billion in 2016 and store owners have been on a hiring hot streak, employing 1.1 million people last year. Wages of the employees are stronger than ever, as well, NADA says.

NADA President Peter Welch suggests the cost of stripping NAFTA would be too high.

"The auto industry truly is a global business," he told a conference in New York earlier this year. "It's just not going to happen."

Trump several weeks ago formally notified Congress of the admin-

Matt Blunt: "Update NAFTA."

istration's intent to renegotiate NAFTA in the coming months, with an eye toward talks with Mexico and Canada in mid-August. Details were few, although the president's top trade adviser Robert Lighthizer told reporters during a conference call announcing the action that negotiations would be bilateral.

That's much lighter rhetoric than Trump has previously used in saying the deal needed to be scrapped altogether.

"Our hope is that we will end up with a structure that is similar to what we have now," Lighthizer said.

RULES OF ORIGIN

A central point of the NAFTA talks likely will center on tightening the agreement's so-called rules of origin.

The administration favors hiking the required share of North American parts in an automobile past the current 62.5% to potentially give U.S. manufacturers a bigger piece of the pie. Talks also are expected to address the origins of the tiniest bits and pieces of parts to limit the use of non-NAFTA components.

Renegotiation of NAFTA also may permit stronger enforcement of currency manipulation by member countries, a leading reason behind Trump's scrapping of the TPP, and perhaps harmonize safety guidelines. Both of those potential actions would be favorable to the industry.

"We encourage the Trump administration to seize this opportunity to work together with Canada and Mexico to support strong and enforceable currency manipulation disciplines in trade agreements and encourage the global acceptance of vehicles built to U.S. auto safety standards," says former Missouri governor and congressman Matt Blunt, who heads the American Automotive Policy Council, a Washington lobbyist for the Detroit Three.

"This initiative presents a significant opportunity to update NAFTA in a way that will increase the export of more American vehicles and auto parts, and grow the number of high-quality and

U.S. dealers mobilize against BAT.

high-paying American jobs supported by such exports," he says.

Perhaps most unsettling to the industry is continued chatter in Washington of a border-adjustment tax, which would put a tariff of up to 25% on automobiles and parts imported to the U.S. The notion of a BAT has been kicked around for years and Trump's position on it is not entirely clear. But the leading Republican tax plan includes a BAT, which reportedly drew inspiration from the "Made-In-America" tax Trump campaigned on to revive U.S. manufacturing jobs.

"Right now it's all speculative, so we don't know what is coming," says Mansuetti of Bosch NA, which as a regional unit of global multinational industrial company The Bosch Group supplies technology and services to the commercial sector and retail customers in the U.S., Mexico and Canada.

"There is a lot of potential volatility there," he adds, citing the potential impact a BAT would have on exchange rates, maquiladora status and demand for new vehicles if prices rise. "So internally we've been playing with a lot of different scenarios."

The nation's dealer body, especially those selling products built entirely overseas and sold in the U.S., see the BAT as unfavorable. Even with record auto sales in recent years, average dealer profitability has remained around 2.5%, NADA says, so the BAT would squeeze already narrow margins.

IMPORTS TAKE HEAT

Price hikes would be the only alternative if the BAT goes through, and remarks by the presi-

U.S. SALES

ORIGIN	VEHICLE TYPE	2016
Germany	Car	410,261
Germany	Light Truck	259,975
Total LV Imports from Germany		670,236
Total Light Vehicle		17,464,777

Source: WardsAuto

U.S. PRODUCTION

GERMAN MANUFACTURERS	2016
BMW, Mercedes-Benz, and VW Light Vehicle	809,415

Source: WardsAuto

U.S. GERMAN IMPORTS

VEHICLE TYPE	UNITS	VALUE ($000)
Cars	550,799	21,781,668
Trucks	19,937	423,053
Buses	60	23,872
Total	**570,796**	**22,228,593**

Source: U.S. Department of Commerce

dent during a recent trip overseas suggest he is not ready to soften his stance on imports. He singled out German automakers for selling "millions" of vehicles in the U.S.

"We will stop this," he said, according to reports.

Daimler, which makes Mercedes-Benz passenger cars, large vans and heavy-duty trucks in the U.S., vowed to raise the percentage of U.S.-sourced parts it uses in its American plants just days after Trump's remarks.

Of the 17.5 million LVs sold in the U.S. last year, 670,236 were imported by German automakers, *WardsAuto* data shows. That's 3.8% of cars and trucks imported to the U.S. Daimler, BMW and Volkswagen built 809,415 LVs in the U.S. in 2016. The U.S. Commerce Dept. values German vehicle imports at $22 billion.

The Center for Automotive Research, an Ann Arbor, MI-based think tank, estimates LV prices would increase 5.6%, or an average of $2,000 per vehicle, in response to a BAT. Annual vehicle sales would drop by 1.2 million units in the first year of a BAT, a report from Deutsche Bank estimates, and by 500,000 in later years.

FLY-IN LOBBY

The stakes could be higher for dealers selling nameplates such as Jaguar Land Rover and Mazda, which at this time do not build in the U.S. The American International Automobile Dealers Assn., which represents the

Dealers march on Washington.

nation's 9,500 foreign-brand dealers, recently hosted an impromptu fly-in to Washington for store owners to lobby lawmakers face-to-face to kill the proposal.

The event was attended by 200 dealers and industry leaders representing 38 states and 1,300 franchises. The group conducted more than 200 meetings with senators and representatives on Capitol Hill.

"It will affect every vehicle sold in the U.S.," says Cody Lusk, president of AIADA, a Washington lobby representing 10,000 U.S. dealers selling foreign makes. "But it won't be just cars; consumers will pay more for everything."

CAR estimates the BAT would cost Americans $1 trillion over the next 10 years. The average household would pay $1,700 more for essential products every year. Gasoline prices would increase $0.35 per gallon, the group says.

"This tax would severely impact the U.S. economy," Lusk says. "Consumers are not going to pay more for transportation or transportation services. We are already

NAFTA tinkering, BAT risk raising new-car sales.

seeing a slowdown in sales, and a price shock will send us along a path we do not want to go down."

At the same time, Trump wants to slash corporate taxes to as low as 15% from 35%. It would make investing in items such as assembly-plant upgrades cheaper for automakers and suppliers, while dealers also could make facility upgrades although many are structured as pass-through entities not subject to income tax.

But a border tax likely would ride along with a corporate-tax cut, insiders say.

"Add the BAT and the juice is not worth the squeeze," Lusk says.

Also on the table is Trump's infrastructure investment plan, which U.S. Department of Transportation Secretary Elaine Chao recently revealed would total $1 trillion over 10 years. More details are due in the coming weeks, but it would fund upgrades to items in the transportation network from roadways to airports. The investment could provide a bump to car and truck sales.

"That could add 800,000 units," says Jim Lentz, CEO-Toyota North America.

THE CAFE QUESTION

Trump reopened a review of corporate average fuel economy standards last month, although it is unclear what sort of changes could be ahead. The review is scheduled to conclude by April 2018.

Relaxing fuel-efficiency and tailpipe-emissions rules that cost the industry hundreds of billions of dollars would seem to be good news, but experts say automakers are on track to meet a 2025 standard of 54.5 mpg (4.3 L/100 km), and the bogey automatically adjusts to account for market demand such as the current consumer lust for trucks.

Automakers also must design and engineer vehicles for global markets, which politically show little desire to pull back on their regulations.

"It's a zero-sum game for the most part," American University's DuBois says of Trump's various plans. "It just creates confusion in the market. Companies will not invest and consumers will limit consumption. No one is happy with the confusion coming out of Washington these days." **WA**

This story was written by Senior Editor James M. Amend with contributions from the WardsAuto staff. Amend has covered product, technology and business news in the automobile industry for nearly two decades and is based in Southfield, MI.