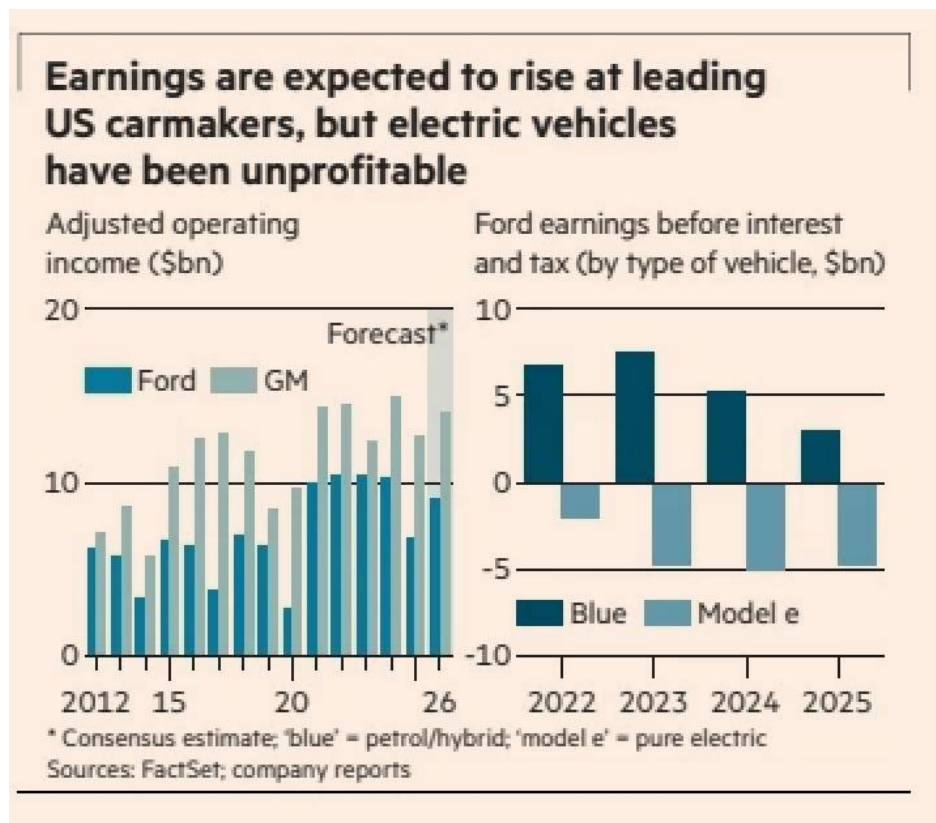


Do America's carmakers have a plan for survival?

di Christian Davies

Profits at Ford and GM are set to recover after heavy EV-related write-offs, but a focus on producing large, high-margin petrol vehicles could create a gap for low-cost Chinese rivals to exploit. The image most likely to be remembered from Donald Trump's visit to Ford Motor Company last month was the middle finger he showed to a heckler.



But the wider message of the US president's trip to America's carmaking capital was that his policies had brought the industry back from the dead.

"Never before has an administration achieved such sweeping and dramatic turnarounds, as has taken place just in this very short period of time," he said. "Eleven months [of his second term] and you're booming."

Trump hailed his 25 per cent tariffs on cars and parts along with his rollback of the emissions rules and tax incentives — introduced by his predecessor, Joe Biden, to nudge buyers into choosing electric vehicles.

"I terminated the insane electric vehicle mandate and ended the war on internal combustion engines once and for all," he told the Detroit Economic Club.

But some industry observers worry that a sugar rush of higher profits stemming from a pivot back to petrolengined higher-margin vehicles will fade as the Trump-era focus on traditional products leaves US manufacturers at a disadvantage in the face of global competition, particularly from China.

“We can’t do things the way we’ve always done,” says Glenn Stevens, executive director of the MichAuto lobby group. “The world is changing very fast around us and we better change with it.” Ford and General Motors, America’s two leading auto giants, are both claiming to be bouncing back after taking big earnings hits last year from tariff-related costs and EV writedowns.

Jim Farley, Ford chief executive, recently told investors that his group had entered the year as a “stronger and more agile company” after slumping to an \$8bn loss following a \$19.5bn writedown on its stalled electrification effort. Its shares are up 50 per cent over the past 12 months.

Mary Barra, his opposite number at GM, has signalled her own company’s confidence with a \$6bn share buyback, even though net profit fell last year by more than 55 per cent. GM shares are up 75 per cent over the past year.

But the industry still faces hard questions, including how to reorganise supply chains in response to Trump’s tariff policies and the upcoming renegotiation of a key trade agreement between the US, Canada and Mexico.

The optimism spurred by the prospect of selling more high-margin petrolpowered and hybrid trucks and SUVs has been tempered by anxiety over a growing affordability crisis in the sector, with many Americans increasingly priced out of the new car market.

Executives are also nervous about the prospect of sophisticated Chinese rivals entering the US market, something Trump has indicated he could support as part of a wider accommodation with Beijing.

That could accelerate the Detroit carmakers’ long-term decline. Glenn Mercer, an independent automotive researcher, noted in a recent analysis that the worldwide market share of Ford, GM and European group Stellantis, which owns the Jeep, Dodge and Ram brands in the US, had declined from 29 per cent in 2000 to 13 per cent today.

“At present the Detroit three are on course to become niche manufacturers on the global stage,” he wrote. “Simple extrapolation . . . says the domestic American industry is entirely gone before 2050.”

For all automakers operating in the US, tariffs remain an immediate challenge. GM incurred tariff-related costs last year of \$3.1bn, while Ford suffered a \$2bn hit.

A senior US auto industry executive describes how the big manufacturers had been forced to identify new sources of components and reshore production, while also absorbing much of their suppliers' costs in an attempt to shield consumers from painful price rises.

But the executive adds that while the tariffs have had a "significant impact" on the companies' bottom lines, it turned out to be "much, much better than it could have been".

In part, this was because companies had benefited from consumers racing to secure vehicles before the levies came into effect in the second quarter of 2025. The Trump administration agreed not to stack the auto tariffs on top of other country and sectoral tariffs, and allowed auto parts for use in vehicles assembled in the US to enter from Canada and Mexico tariff-free.

Taken together, this meant that GM's tariff impact in 2025 was almost \$2bn less than the worst-case scenario outlined in May last year, soon after the tariffs came into force. Ford told investors this month that its \$2bn tariff hit last year would have been about \$1bn were it not for a pair of fires at a critical aluminium supplier, which forced it to source tariffed alternatives from abroad.

The auto industry levies, imposed under the Trade Expansion Act, are not affected by the Supreme Court's recent ruling on the lawfulness of tariffs imposed using the International Emergency Economic Powers Act (IEEPA), and will be exempt from Trump's new 10 per cent global tariff.

But analysts note that in any case, their financial impact has been less than that of the multibillion-dollar write-offs connected to the pivot away from EVs.

Including Stellantis, Detroit's carmakers have booked more than \$50bn of charges relating to investment in EV development and production in the past six months. Ford still expects its EV unit to lose up to \$4.5bn this year, more than four times the hit it expects from tariffs.

But if the Trump administration has taken with one hand in the form of tariffs, it has given back with the other by rolling back environmental rules and offering corporate tax incentives.

Mark Wakefield, global automotive market lead for consultancy AlixPartners, says that by scrapping the rules that pushed automakers to produce more EVs, Washington had facilitated a switch to more profitable combustionengined vehicles.

"What the write-offs don't show you is how much money they will avoid spending on profitless products," he says, adding that Trump's decision to remove penalties for emissions violations had by itself mitigated the total impact of tariffs on US automakers by about half.

"The money they lost on EVs was spent over the past four years, but now they are going to have a much more profitable mix."

The rush to buy before tariffs, plus a separate push to order EVs before the withdrawal of a \$7,500 consumer tax credit in September, pushed US auto sales to 16.3mn units in 2025, the highest since 2019, according to data and services group Cox Automotive.

While Cox anticipates that figure falling back to 15.8mn this year, many analysts see reasons to believe that the market can continue to deliver sales upwards of the 16mn mark.

Tyson Jominy, senior vice-president for data and analytics at consultancy JD Power, notes that automakers and dealers have retained enough room to offer buyers improved incentives, propping up demand that is also likely to be boosted by interest rate cuts over the course of the year. Hundreds of thousands of three-year leases signed during a shortlived EV sales boom will be ending, drawing buyers back into the market.

In her letter to GM shareholders last month, Barra wrote that “we expect the US new vehicle market will continue to be resilient” and that the company’s North American adjusted profit margin was likely to return from 6.1 per cent last year to an 8-10 per cent range this year. Farley told Ford employees this month that he was increasing companywide bonuses for both salaried and hourly-paid staff.

But others warn that the industry is not out of the woods yet. Collin Shaw, president of the Motor and Equipment Manufacturers Association trade group representing auto suppliers, adds that while “everyone had chipped in” over the past year to share the burden of tariffs and protect consumers from steep rises in sticker prices, the difficult work of reorientating the automakers’ manufacturing footprint was yet to begin in earnest because of the lingering uncertainty over government environmental and tariff policies.

He notes particular unease surrounding this year’s renegotiation of the US-Mexico-Canada free trade agreement (USMCA), amid several reports that Trump is considering pulling out of the pact altogether.

Shaw says the demise of the USMCA would be “catastrophic” for the industry. But he adds that even if it is renewed in some form, there would be a “mad rush” to implement new sourcing and manufacturing plans that have been held up by the policy uncertainty.

Wakefield of AlixPartners adds this would squeeze margins further at a time when other strategies deployed by automakers to protect their profitability could also be running out of road.

For years, manufacturers have been offering US consumers fewer smaller and lower-cost models and more large trucks and SUVs — a decades-long trend driven by demand for larger vehicles and carmakers’ quest for higher margins.

That trend accelerated as automakers responded to Covid-era production cuts by equipping larger vehicles with more expensive trims and features, and again last year when the industry came under pressure from Trump’s tariffs.

As a result, standard cars now account for just 2 per cent of Ford's US sales. Fewer affordable vehicles on the market means that many lower- and middle-income Americans, under pressure from high living costs and interest rates, have been squeezed out of the new car market altogether.

That presents automakers with a choice between doing more to address consumer demand for more affordable models and weathering the effect on profit margins, or continuing to produce larger, better-equipped and higher-margin models for a smaller pool of wealthier consumers.

"This is a delicate situation for the manufacturers," says Jominy of JD Power. "If you undo all these pricing and content decisions and you don't sell more, then all you've done is unwind the profitability that you once had."

Detroit's automakers worry that if they do not produce more affordable vehicles for US consumers, then foreign rivals will step in. Traditionally, that threat has come from Japanese and Korean competitors, which have set up manufacturing facilities in the US in addition to importing vehicles from abroad. Toyota increased its US sales last year by 8 per cent, amid a surge in demand for its hybrid models, while Hyundai achieved record market share and is expanding US production.

Economists note that the weak Japanese and South Korean currencies have helped offset the impact of tariffs on vehicles imported from Asia and diluted the competitive advantage for US manufacturers — although this has benefited GM, which still produces many of its cheapest models in South Korea.

But it is the spectre of Chinese competition that concerns US auto executives the most, an anxiety that was heightened when Trump remarked during his visit to Detroit that he would "love" for Chinese manufacturers to build and sell cars in the US.

In addition to Trump's comments, Canadian Prime Minister Mark Carney last month negotiated a deal with Beijing to allow 49,000 Chinese EVs to be imported into Canada annually at a negligible tariff rate, a move Ottawa has described as a first step towards joint Chinese-Canadian production north of the border.

Hangzhou-based Geely, whose Volvo Cars brand already has manufacturing capacity in the US, has also indicated that it is considering entering the US market within the next three years.

One senior industry figure tells the FT that while US tariffs and other regulations could, in theory, keep Chinese vehicles out of the US market indefinitely, such long-term reliance on protectionism would render US-made vehicles uncompetitive abroad and ultimately at home. But if Chinese rivals are allowed to enter the US market before domestic automakers are ready to compete, the person added, the result will be a "bloodbath".

Executives must act on the assumption that the Chinese will eventually enter the US and innovate accordingly, the senior industry figure concludes, whether in terms of adopting next-generation technologies, speeding up development timelines or drastically cutting vehicle costs.

While Ford and GM are both promising to introduce a new generation of affordable electric vehicles incorporating next-generation technologies, analysts note the two leading US auto companies are attempting to achieve these goals in different ways.

In EV development, for instance, GM's strategy rests heavily on developing "lithium manganese rich" batteries using an unproved chemistry, which it claims will reduce cell costs without compromising performance. For this it is relying mainly on Korean rather than Chinese partners and suppliers.

Ford, in contrast, intends to produce industry standard "lithium iron phosphate" batteries using technology licensed from Chinese battery giant CATL. The batteries will be incorporated into a new "Universal EV Platform", which will underpin a new generation of sub-\$40,000 vehicles, including a \$30,000 electric pick-up truck due to be launched next year.

Ford, which has partnered with Renault to work on low-cost EV development, is also in talks with Geely about Ford's underutilised production capacity in Europe for joint vehicle development.

Those familiar with its thinking say this is a potential first step towards a partnership in the US.

Despite the differences in approach, observers say the leaderships of the two companies are confronted with the same task: to incorporate technologies and industrial practices from China and from Silicon Valley and develop a new generation of electrically powered, software-defined vehicles that are both affordable for consumers and profitable for manufacturers.

This will require them to implement a profound cultural transformation while navigating shifting US trade and emissions policies, a volatile geopolitical environment and growing pressures on the US consumer, along with resisting pleas from investors to simply focus on the industry's traditional strengths.

Wakefield of AlixPartners says that while such a task is "extremely difficult, it can be done". But he cautions that "simply doing the same things faster and cheaper" will not be enough. "Revolutionary changes will need to be made."