United States: IHS Automotive initial response to Trump's election

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IHS Automotive perspective	
Significance	The automotive industry both in the United States and in the rest of the world looked on with surprise and shock at the unexpected victory of Donald Trump in the presidential election on 8 November.
Implications	The IHS Automotive forecasting team has given its initial impressions of the potential effect of Trump's election on the US and wider automotive markets, both in terms of sales and outlook and the regulatory environment.
Outlook	It is too early to assess the potential impact of the Trump presidency on the automotive market, although some potential outcomes can be seen. The next IHS Markit monthly automotive webinar is scheduled for 22 November, when our team of experts will further discuss these developments.

IHS Automotive has prepared an initial response to the momentous news of Donald Trump's election on 8 November. The US election results have triggered a political earthquake, but not an imminent economic rupture or time-critical event, allowing time to evaluate the likely policy eventualities and separate them from the electioneering rhetoric and to then assess the potential policy impact itself. The election has produced a policy shock comparable to Brexit. In terms of an actionable timeline, policies have to be first formulated in detail, likely moderated in negotiation, and then only implemented after a process that includes Congressional review, oversight, and approval. It is important to remember the checks and balances inherent in the US system. While the new president will set a policy and a developed agenda, he will need co-operation from the US Congress to enact some of those policies. However, the president does have the authority to pull out of the North American Free Trade Agreement (NAFTA); that could be done six months after the president notifies his intention of pulling out to Mexico, and would not need Congressional approval, according to media reports.

However, the first 100-day plan for a Trump presidency, announced pre-election and so arguably part of electioneering, prioritises no changes with direct or immediate impact for the automotive industry. If anything were to emerge, it is more likely to begin to be seen only after late 2017. Trump's campaign statements on trade agreements and the potential for policy change or renegotiated agreements could have a significant impact on the automotive industry. Additionally, the president-elect could influence regulatory issues in the automotive space, including rules on autonomous technology as well as, clearly, fuel economy and emissions.

US auto market

Delivering on tax cuts and infrastructure spending could re-energise consumer spending, with the potential to extend or prolong the current peak in US auto sales for another year or two, despite the expected end of the pent-up auto sales cycle. Sales of pickup trucks in particular could benefit from the new policy dynamic on both residential and non-residential construction and a refocusing on domestic energy. What would follow, perhaps around the turn of the decade, would then depend on how much the new policies boost the US economy and, thus, its ability to tolerate higher federal debt. Any effective adjustment to our market outlook has to come after an economic impact assessment of the new administration's policy.

Auto production impacts

NAFTA and Mexico sourcing: The 100-day plan, however, does announce an intention to renegotiate NAFTA, which may only signal the beginning of a lengthy process. We expect the initial impact to more likely to be the possible postponement of any future sourcing decisions involving cross-broader re-locations, rather than the re-assessment of plans past the groundbreaking stage. In addition, while the president has the authority to negotiate trade deals, these agreements affect US law and require the approval of Congress, both the Senate and the House. There are several steps to the process, and this procedure can reduce the president's ability to effect change. The president does have a fast-track authority for trade agreements, under which he can negotiate an agreement and put it before Congress to approve or deny but not amend or filibuster. In 2015, 87.5% of Mexico's production was sold in North America and 59.7% in the United States.

Withdrawal from new trade agreements: An announcement to withdraw from the Trans-Pacific Partnership (TPP) in its current form is also part of Trump's 100-day plan. In advance of ratification and finalisation of the TPP, IHS Automotive forecasts are not currently based on the implementation of this trade agreement or, in fact, the Transatlantic Trade and Investment Partnership (TTIP) with Europe. This factor, on its own, therefore will not substantially change our forecasts for economic growth or automotive import and export flows.

US fuel efficiency regulations: Many statements from Trump during the election period suggest, although without direct reference, that the 2025 CAFE targets could be reviewed, with a less aggressive stance likely to "protect US consumers and US workers". An independent midterm review of the 2025 CAFE regulations is under way and an EPA/NHTSA policy statement based on this review is due within about a year of the new Trump presidency. Another significant player in those negotiations is the California Air Resources Board (CARB), which has some authority to set rules that may not align with the EPA and NHTSA. The Alliance of Automobile Manufacturers, which includes most automakers, has already reached out to address this issue with the president-elect, according to recent media reports. The president lacks authority to set the regulatory conditions directly but, as the leader of the country, he can set overall policy that the government agencies would work towards.

Outlook and implications

US public, businesses, and industries and the rest of the world are still coming to terms with Donald Trump's election as the 45th president of the United States. However, there are certainly elements to his campaign platform and the 100-day plan for the Trump presidency that could significantly affect the North American automotive industry, NAFTA, and production, imports, and exports between the signatory countries.

Trump has been openly hostile to NAFTA and stated that he would withdraw the United States from the TPP in its current planned form. As part of Mexico's membership of NAFTA, 1,947,536 of the vehicles it builds enter the US market. In the long term, a US withdrawal from NAFTA could have serious potential implications for vehicle manufacturing in Mexico, which produced almost 3.40 million units in 2015.

Trump has said he will put pressure on the CEOs of US companies with significant overseas production, such as Apple, to bring this capability back to the United States. But it remains to be seen if Trump will carry out some of his more controversial pledges made during a highly contentious campaign. He also made many commitments that require the support or approval of the US Congress. While both the House of Representatives and Senate will have a Republican majority, Trump's campaign was not supported by the entire Republican party. Typically, a Republican president can get more done if the Congressional houses are both Republican, but political power in the United States involves a system of checks and balances.

Forecast note: In the coming weeks, as the details of the various Trump proposals become clearer and the prospects of Congressional approval are better understood, IHS Automotive will update the Trump scenario and incorporate likely policy changes into the new baseline automotive forecast. The next IHS Automotive monthly automotive webinar is scheduled for 22 November, when our team of experts will further discuss these developments.

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