Car Manufacturers Caught in Crossfire of Trump's Trade War

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The global repercussions of Trump's trade wars have a new casualty: US and European car manufacturers.

The telegraph reports European Carmakers are Caught in the Crossfire of Trump's Trade War.

But it's not just European manufacturers. The US will take a huge hit as well.

> China has been the most frequent target of Trump's ire. At the start of the month he fired another Twitter salvo in the trade war between Washington and Beijing.
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> From September 1, $300bn (£247bn) of imports from China would be hit with a surprise "small additional 10pc tariff," Trump threatened. "This does not include the $250bn already tariffed at 25pc," he added. The news caused the S&P index to fall almost 2pc in just a few minutes.
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> A few weeks later Beijing responded. Retaliatory tariffs of 10pc on US imports would similarly begin at the start of this month. But it also warned that in December the import duty on US-built cars would jump from the current 15pc to 40pc – reimposing a threatened 25pc hike that had been put on hold as tensions cooled last year. The warning put the global car industry squarely in the firing line.
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> "The car industry is complex with supply chains crossing borders and components moving between countries many times," Professor David Bailey, a car expert at Birmingham University, says. "That's before you take into account foreign-owned plants producing cars for export around the world*. Tariffs are a very blunt instrument and using them has unintended consequences*."

US Impact

1. The BMW plant in Spartanburg, South Carolina, opened in 1994 and since then the 11,000 people whose jobs it offers or supports have produced 4m cars.
2. The Mercedes site in Tuscaloosa County, Alabama, has 3,800 direct employees and supports 10,000 more jobs, and the plant has churned out 3.2m vehicles since opening in 1997.
3. "BMW and Daimler are two of the largest exporters of vehicles from the US to China," says Ellinghorst. "A 25pc tariff would cause $1.7bn of extra costs for the two of them, split fairly evenly."
4. Volvo may be another victim. The company which is owned by China's Geely

opened its first US plant, in Ridgeville, South Carolina last year. Ian Henry of Auto Analysis added: “There’s also been stories of Volvo supplying some models made in China from its European factories to the US to avoid tariffs, with the shortfall in Europe made up with cars built in China being transported by rail.”

5. Evercore says that of the US manufacturers, Ford and Fiat Chrysler, which respectively export 40,000 and 10,000 American-built cars to China annually, face an extra $320m and $80m in costs.
6. Tesla, which is expected to sell about 45,000 vehicles in China in the coming year, faces a $620m bill. However, Elon Musk’s electric car company is building a plant in Shanghai which will allow it to dodge tariffs when it opens next year.

Source: Mish Talk

Truly Idiotic

BMW, Volvo, Mercedes, and Daimler all produce cars in the US for export to China. That slowdown is in addition to the direct hit on GM and Ford.

Elon Musk will avoid tariff retaliations by building cars in China.

If you think this is truly idiotic, you are not the only one.

The article concludes

> “For all Trump’s rhetoric about making America great again and protecting the country’s industrial base, his current tactics risk causing huge damage.”

Major Supply Chain Disruptions

Two days ago I commented [Major Supply Chain Disruptions Coming: Thank Trump]

I stand corrected.

Major supply chain disruptions are already here.

ISM and PMI Reports

The ISM and PMI reports were miserable, not just in the US, but globally.

I commented [US Manufacturing Recession Begins: ISM Contracts First Time in 3 Years].

Here are a couple of items that caught my attention.

1. Deteriorating demand conditions, *especially across the automotive sector*, were linked to subdued client demand.
2. External demand also weighed on new business growth, as *new export orders fell at the quickest pace since August 2009, linked by many firms to trade wars and tariffs*.

Deteriorating Automotive Sector

Last Friday, I noted Personal Income Up 0.1%, Spending Up 0.6%, sarcastically commenting "What's the Problem?"

Here is the contradictory line from the BEA report that caught my eye in advance of the ISM and PMI reports.

"Within goods, recreational goods and *vehicles* was the leading contributor to the increase."

I commented "*Auto and SUV sales have not been strong. I smell revisions*."

Gross Distortions

The economic reports appear to be grossly distorted, way more than usual.

Little of this ties together.

On July 7, I commented Dealers are Bumper-to-Bumper With SUVs: More Coming as Sales Decline

On August 5, CNBC reported Car dealers struggle to sell 2018 new-car inventory to make room for 2020 cars.

> As dealerships look to sell off cars from the 2019 model year to bring in 2020′s shiny new models, they're running into a problem. They still have cars from 2018 clogging up their lots.

Even if vehicles are a "leading contributor" to increased consumer spending as the BEA says it won't last.

Auto sales figures are out later today.

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