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Trump's Tariffs Could Raise Car Prices. Should You Buy One Before They Kick In?

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While buying a car is almost always both exciting and stressful, the balance will tip toward the latter in coming months, especially for people looking for an electric vehicle.

The second Trump administration, due to take office early 2025, could bring tariffs on just about everything. New vehicles wouldn't be exempt, raising the inevitable question: Should I buy that new car now?

The answer for most situations is no. There is no reason to rush or worry excessively. But buyers thinking about purchasing an electric vehicle might want to take a trip to the dealer sooner rather than later, a conclusion that has interesting implications for Tesla buyers and investors.

While figuring out the precise effects of tariffs is nearly impossible, estimating a rough impact is easy. Car makers disclose the U.S. and Canadian parts content in their vehicles. And it isn't a problem to figure out where the cars Americans buy come from.

Roughly 50% to 70% of the parts for popular cars assembled in the U.S. come from Canada or the U.S., according to the National Highway Traffic Safety Administration. The average for all cars is about 50%, according to Cars.com, adding that number isn't weighted by sales. It's an average among all car models assembled in the U.S.

Cars.com produces an annual Made-In-America survey. For 2024, the Tesla Model Y is the most American-made car. General Motors has the most models on the list.

There is, of course, a cost to assemble a vehicle, so the part of the value of a car assembled in the U.S. that is subject to tariffs might fall between 20% and 30%. If President-elect Donald Trump imposed a 10% universal tariff, as he has suggested, it would raise car prices by about 2.5%.

Imports of finished vehicles require separate arithmetic. Roughly 75% of the cars sold in the U.S. are manufactured in Canada or America, points out Freedom Capital Markets analyst Mike Ward, which leaves 25% of the cars facing a 10% tariff on the entire vehicle. Combining all that, new-car prices could rise by 4% to 5% due to a 10% universal tariff.

Of course, buyers need to remember that costs aren't prices. Myriad factors, such as auto makers' profits, interest rates, consumers' ability to pay, the supply of new vehicles, and inventories of cars, all go into pricing decisions.

For the average auto loan, a 5% increase in the sticker price from a tariff would be wiped out by a 2 percentage-point drop in interest rates.

Car prices have fallen recently as vehicles have piled up on dealer lots. The average new car in the U.S. costs about $48,000, down almost $2,000 from the level reached in 2022, when buyers had to wait weeks or months for their desired model. Production and supply-chain problems created by Covid-19 left dealers with about 40% less inventory in mid-2022 than they have today.

With dealer inventories relatively high, there should be deals for buyers in early 2025, regardless of tariffs.

But buyers of EVs should watch out. Thursday Reuters reported that—as expected—Trump is likely to eliminate the $7,500 tax credit available for some purchased EVs. All leased EVs are eligible.

That is real money. The $7,500 amount is roughly 13% of the average $56,000 that a new EV costs. Potential buyers should consider acting now.

If that happens, pulling forward demand, it could have a notable impact for investors. It could lead to strong fourth-quarter EV sales for the likes of Tesla and Rivian, says **Battle Road Research** analyst Ben Rose.

While Tesla management has said it can deliver more EVs in 2024 than in 2023, implying at least 515,000 vehicles sold in the fourth quarter. Wall Street isn't buying that. The consensus call among analysts is for about 503,000 vehicles, according to FactSet.

If a wave of buying emerges ahead of a revocation of the tax credit, that could help Tesla post better deliveries—and earnings—than expected for the fourth quarter. Investors love that kind of surprise.

To be sure, the pricing math is inexact and tariff levels could change. What and when changes come to EV tax credits is anyone's guess. It is too early for Ford Motor and General Motors to have issued any forecasts.

While investors will have to wrestle with policy changes in the coming months. the picture is clearer for people in the market for cars. Anyone who wants a traditional vehicle can wait, while EV buyers should think about heading to the showroom.

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