March Commentary

Sipping Lattes and Taking a "Sunday Drive"

Like me, I have to believe that most of you are tired of hearing, reading, and talking about tariffs. Taking it a step further, I would guess that most of you, like me, are even more perplexed with trying to understand the true definition of success amid all this tariff ambition. Are we doling out tariffs to generate revenue for Washington? Are they a way to onshore production or repatriate jobs to the U.S.? Are they being used to simplify and right-size our supply chains? Perhaps they are a means of strengthening the blue-collar middle class. Or are they being used as a punitive tool to intimidate less-than-pliant trading partners? Maybe they are an attempt to drive down the trade deficit, increase the national savings rate, and protect domestic industries and companies. At this point in the game, I'm convinced they are a combination of all those statements and queries, and undoubtedly, there are more reasons than I've listed here.

While there are countless reasons why a government might employ tariffs, they make intuitive sense at some level. Unfortunately, however, tariffs can impede trade, and trade has always been good for disseminating goods, services, ideas, and technology. And historically, trade has been good for economic growth. I believe those last two sentences to be on point, and I would like not to have to guess the logic or desired outcome for all this tariff hullabaloo. Gray, as in "somewhere in the middle," is okay in some instances. However, black or white, with respect to clarifying an issue, is almost always better when you need to make crucial decisions. We might disagree entirely with the decision, but most of us can learn to deal with the outcome and plan accordingly.

While this whole tariff situation has created a vast global kerfuffle, in the next couple of paragraphs I will attempt to add some color to one that often equates to the second largest line item and purchase in most American budgets - buying a new vehicle. As probably everyone reading this newsletter knows, the current occupant of 1600 Pennsylvania Avenue, more succinctly, President Trump, recently slapped a 25% tariff on automobile imports into the United States. While there has been much wringing of hands and gnashing of teeth worldwide, this will primarily impact five countries. In descending order of the value of auto exports into the U.S., they are Mexico, Japan, South Korea, Canada, and Germany. Though France is far down the list regarding immediate impact, French President Emmanuel Macon has been indignant about how this could affect his country. Whereas the other five countries mentioned make up over 83% of U.S. auto imports, France accounts for about 0.3%, therefore this tariff will have little to no impact on their economy.

"Cars are the ultimate symbol of freedom, independence, and individualism. They offer the freedom to 'go anywhere,' whenever it suits and with whom one chooses."- from the book by Sarah Redshaw, In the Company of Cars: Driving as a Social and Cultural Practice.

As for the U.S. consumer, what does this particular "auto-manufacturer" tariff mean for them in the short term? That is a great question. Speaking solely for my wife and me, we don't plan to buy a new vehicle in the near future. As such, President Trump could have put a 500% tariff on foreign autos, and it wouldn't have affected us. We are not in the market for a brand-new, imported, or otherwise vehicle. But this isn't just about me; we are all in this thing together, right? As for those of you who are in the market to buy a new car, truck, or SUV, you are in luck. According to caredge.com, the new car inventory in the United States in February was nearly 3 million units. That is approximately 96 days of supply at current sales levels. Lexus easily has the tightest supply of all the major brands, with 39 days of inventory. On the flip side of the spectrum, Ford is comparatively awash in vehicles at about 140 days. Most importantly, these vehicles are already on the lots, ready to be driven home with their intoxicating new car aroma and ding-free doors and won't be subject to the new tariffs. Not surprisingly, shrewd dealerships were prepared and stocked their lots and showrooms before the tariff announcement.

As a reminder, the U.S. still produces many vehicles stateside, mainly for domestic consumption. So, as a result, there will still be plenty of autos and trucks to choose from that won't be subject to the announced tariff. If the tariffs do indeed stay in their current form, some of the parts U.S. automakers (i.e. Ford) use may be subject to a levy but not the entire vehicle. Interestingly, American automaker General Motors could be saddled with an outsized tariff burden as it imports about 750,000 vehicles into our country from its plants in Mexico and Canada. Conversely, German automaker Mercedes-Benz produces the GLE-class SUV in Tuscaloosa County, Alabama, and the primary production plant for the BMW X5 is the BMW Plant in Greer, South Carolina. This plant is the largest single BMW production facility worldwide for BMW Sports Activity Vehicles, including the X3, X4, X5, X6, X7, and XM models. As of this writing, these vehicles won't be subject to this new tariff, so, if you are in the market for a new high-end SUV, you may consider buying a U.S.-manufactured German vehicle or something along those lines. Quite astonishingly, you can buy a foreign car made in the good old USA that doesn't have a tariff attached, or you can buy an American nameplate GM truck made in Mexico and know it carries a hefty tariff - oh, the irony. I am trying to make the point that tariffs on imported vehicles don't have to affect us if we don't want them to. In most instances, people don't HAVE to buy a car at a particular time, so be patient and allow this brouhaha to blow over. If you can't wait, buy a used car, one produced in the United States (foreign or domestic), or any vehicle already sitting on a dealer's lot.

"Everything in life is somewhere else, and you get there in a car." - E. B. White, American writer.

Admittedly, the assumption made in that last paragraph is that the buyer is on the hook for the entirety of the tariff, which it won't be! Automakers and all other manufacturers, for that matter, won't be able to pass along all of their cost increases to you and me. They have never passed all their increases to consumers and won't be able to do so at this juncture either. If businesses could, they would, and companies would never go belly-up. Yet our nation's economic history is littered with producers, manufacturers, and retailers who have gone belly-up. But, if companies have to absorb the cost of tariffs, won't that affect their profits? Furthermore, won't that be bad for investors and economic wealth creation since investors are usually willing to "pay up" for earnings per common share of publicly traded companies?

What I am about to relay might shock many of you, so hold tight. As I type on April 16, 2025, General Motors Co. has a market capitalization of around $43 billion, and Ford, the other large domestic producer, has a market cap of about $37 billion. Stellantis, the Dutch-headquartered maker of American brands like Chrysler, Dodge, Jeep, and Ram, has a market cap of roughly $35 billion. Combined, that equals about $115 billion in market capitalization. That is a lot of money in absolute terms, no argument. However, and this is hard to fathom, the market value of the three largest "American" auto companies is not much bigger than Starbucks ($95 billion). Yes, you read that last statement correctly. Starbucks, the purveyor of the $6.50 indulgent coffee concoction, is nearly the same size as the iconic U.S. auto industry, at least in market capitalization. It is hard to grasp how indifferent investors are about car manufacturers, or differently stated, how crazed they are about a company that makes Fru-Fru coffee drinks. Wacky, isn't it?

"There's a point at 7,000 RPM... where everything fades. The machine becomes weightless. Just disappears. And all that's left is a body moving through space and time. 7,000 RPM. That's where you meet it. You feel it coming. It creeps up on you, close in your ear. Asks you a question. The only question that matters. Who are you?" - Carroll Shelby, portrayed by actor Matt Damon, from the 2019 movie Ford v. Ferrari.

Regardless, I don't suspect these automotive tariffs will last too long when all is said and done. I fully expect manufacturers will commit to something, anything, to placate the Trump Administration. They will likely begin onshoring a sizable amount of production. As for the timeline, dealer lots will still have plenty of vehicles on hand when the administration ultimately gets its way. Nonetheless, this is all just my best guess as to what I suspect the endgame is for the U.S. auto industry. It could be something else altogether or a combination of things. The one thing I do know: it's always wise to be careful while sipping a bougie coffee drink in a brand-new car!

As for the rest of the "Liberation Day" salvo of tariffs, at this point in the process, I'm not convinced anyone knows with 110% certainty what attainable success looks like. I sure wish I did because it would make writing newsletters like this much easier. It would also make my venti, extra hot caramel macchiato with caramel drizzle and extra foam taste even better!

Until next month—

by David Lackmann
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