2024 US election and the automotive ecosystem:

How much change to expect?

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Introduction

One of the most impactful presidential elections in United States history is scheduled for November 5, 2024. Regardless of the outcome, the following issues are expected to directly affect the US auto industry:

- The perception of an existential threat from mainland Chinese automakers and technology companies;
- Positions on environmental policy, particularly as relates to vehicle emissions and safety regulations;
- Trade policy as it relates to both USMCA and potential for national security tariffs; and
- Positions relative to unions and labor.

S&P Global Mobility looks at issues specific to the auto industry and how various outcomes may change (or not change) the bigger picture.

While the incoming President will have certain executive authority to take immediate action upon taking office, especially in areas such as tariffs, substantive policymaking will require congressional action. Congress in recent years has been notoriously slow in their policymaking efforts and the makeup of the Congress will also have an impact on their productivity. The President's choices for advisors and cabinet posts can have an effect as well. For some laws and processes related to the automotive sector, there are also required review periods, and changes to emissions and fuel economy requirements must be finalized 18 months prior to the model year production start. Even after the election, the trajectory of the new administration and their focus will not be known until early- to mid-2025.

November 5th - Strategy Hangs in the Balance

Four principal outcomes - all having significant impact on OEM and supplier strategies

White House	House	Senate	2028+ LV Emissions Regs	IRA Future Funding	China Tariffs	CARB Exemption	2026 USMCA Renegotiation
R	R	R	Reduce, delay and alter	Reduce and alter	Maintain & Strengthen	Try to eliminate	Negative
R	SPLIT		Delay, try to reduce	Attempt to reduce	Maintain	Try to eliminate	Somewhat negative
D	D	D	Delay an extend	Add funding	Maintain with labor influence	Maintain	Somewhat negative
D	SPLIT		Delay an extend	Maintain	Maintain with labor influence	Maintain	Somewhat negative

Source: S&P Global Mobility

We expect many companies are likely holding major decisions until after the makeup of the White House cabinet and advisors becomes clearer and taking time to understand the impact of the Congressional and state elections. As an example, Republicans are vocal about wanting to reduce funding for the federal programs under the Inflation Reduction Act. Some states with automotive industrial investment vote Republican and others vote Democrat. House and Senate representatives from those states have a stake in maintaining an inviting economic environment for the district or state they represent as well as loyalty to party affiliation. The outcome can cause voting along party lines which may conflict with constituent priorities, and vice versa.

Here we describe several scenarios and how we see they may unfold. For anyone with a stake in the industry, shifting to a scenario mindset becomes critical for decision-making. A single forecast is only one guideline. Critical decisions need to consider business and market demand issues in the context of upper and lower bounds derived from plausible scenarios, along with a baseline forecast.

2028+ Federal Emissions and Fuel Economy Regulations

The current EPA greenhouse gas (GHG) emissions and NHTSA fuel economy regulations for light vehicles run through 2032. However, these regulations are not aligned — making it difficult for automakers to meet both standards. If the gap between the GHG and NHTSA standards were closed, then the federal regulations would not align with California. For the medium- and heavy-duty commercial vehicle (MHCV) sector, the EPA has mandated GHG emission standards (Phase 3) starting in 2027 model year, going through 2032 model year. MHCVs are not subject to fuel economy regulations under NHTSA; meeting emissions regulations for MHCV is also problematic, but it is somewhat less complicated.

Further, S&P Global Mobility's latest assumptions are that automakers will not physically be able to comply with the later years of the federal regulations as written today. Regardless of which political party controls the White House or the two chambers of the Congress, change seems necessary to realistically align regulations with what is technologically feasible, with what consumer demand is for the technology, and with what is profitable at a price point consumers are willing to pay, and to accomplish those factors within the defined timeframe. The targets may be obtainable on a longer-term horizon, but meeting within the current timeframe seems unlikely.

Against this backdrop, current targets are likely to be delayed regardless of the election outcome. However, what change looks like can depend on which party wins the White House, Senate and House. If the Republicans win the White House but Congress is split, we expect the light vehicle regulations currently set to come in force after 2028 model year will be delayed. Regulations for post-2032 model year would be impacted by delays of current regulations; if set under a Republican administration, they are likely to be less onerous than if set under a Democratic administration.

If Republicans were to get control of both the White House and Congress, light vehicle regulations would likely be reduced, the 2028 model year targets delayed and the 2032 model year targets extended. We also see potential for the MHCV GHG Phase 3 regulations to be redrafted under Republican control; that process could take 24 to 36 months, which would effectively eliminate the 2027 implementation of GHG Phase 3 while new rules are drafted, with current GHG Phase 2 rules staying in place.

If the Democrats win the White House and Congress is split, we still expect light vehicle regulations to be delayed and extended, while MHCV standards could be held as-is.

Inflation Reduction Act funding future

The Inflation Reduction Act (IRA) has been codified since 2022 and requires Congressional action to substantively change. One provision of the IRA is a mechanism for providing federal funding to support consumer-level incentives for purchasing light-duty BEV or plug-in hybrid electric vehicles (PHEV), new or used, as well as federal tax credits for zero-emissions vehicle (ZEV) MHCV purchases.

For automakers and suppliers, the IRA also offers support for manufacturing investment, which has been a factor in OEM and supplier investment decisions; and has been effective at supporting development for a more robust North American supply chain and infrastructure than the consumer credits. The IRA also has significant funding available for purchasing, installing, operating and maintaining Class 6-7 ZEV trucks as well as funding for purchasing or installing ZEV port equipment or technology, including ZEV trucks themselves.

In looking at the potential election outcomes, if the Republicans win the White House, but Congress is split, it is expected that the Administration will attempt to reduce IRA funding, likely to impact provisions for both light-duty and MHCV sectors. Reducing funding will need both House and Senate approval along with the White House support; it is not clear if the Republicans would be successful with a split House and Senate.

If the Republicans win White House and both houses of Congress, the party's ability to reduce IRA funding as well as change the structure of the law is more likely to be successful.

If we see a Democratic White House and split Congress, the Democrats will likely only seek to maintain the law as it is, while if Democrats controlled White House and Congress, they are likely to seek to add funding.

Mainland China Sourcing Tariffs

Tariffs and other protective measures regarding the import of mainland-China-produced BEVs and technology are supported by both the Republican and Democratic parties. Under President Joe Biden, tariffs increased from beyond those established under former President Donald Trump. Biden's White House also has proposed a potential ban on mainland China-developed or manufactured software as well as adaptive driving systems and autonomous vehicle technology completely.

Given the low volume of imports and exports in the North American trucking landscape, the impacts from tariffs on the MHCV sector are expected to be macro-economic in nature. Demand for new trucks is closely linked to the performance of the US economy and resulting road freight trends; if a trade war reduces imports and drives up cost, the MHCV sector will see reduced demand.

The steps taken by President Biden's administration reflect continued bipartisan concern regarding the threat that mainland Chinese vehicles and Chinese automotive technology may pose to American industry and national security. Notably, both Republicans and Democrats have coalesced around the use of industrial policy largely via the imposition of tariffs, to support and defend American manufacturing industries against foreign competition. Whichever party controls the White House and Congress is likely to continue the use of tariffs on mainland Chinese vehicles and technology, however they may differ in their focus, i.e., support of unionized labor.

California: Does Its Ability to Regulate Emissions Continue?

The 1967 Clean Air Act allows California Air Resources Board a waiver to set their own GHG emissions standards, and Section 177 allows for other states to choose to adopt California's standards or the US federal standards. California's standards are more aggressive and go out to 2035 while US federal standards are only currently set to 2032 model year. The situation creates two sets of standards which automakers must follow if they want to sell in all 50 US states. Because there are sharp differences between the goals of the Republican and Democratic parties on this issue, the outcome of the election could have impact on both light-duty and MHCV sectors.

The goals of the Republican party and goals of the Democratic party are essentially opposite on maintaining California's waver. While Democrats have not opposed leaving the waiver as it stands, this waiver has been the subject of consternation amongst Republicans who are largely opposed to the leeway given to California's policymakers. If the Republicans win the White House, whether the Congress is split or if they also win the Senate, the administration is expected to work toward eliminating that waiver. Simultaneously, legal challenges to ending the California exemption are under development, being prepared for when and if they may be needed. Ultimately, any legal challenges to California's waiver may need to be resolved by the Supreme Court. The opposite is true with a Democratic win; in that case, the exemption is expected to be maintained.

California's waiver has a massive impact. As we noted earlier, the EPA and NHTSA regulations are not aligned. If they were revised and aligned, the emissions requirements, even through 2032 would be out of alignment with California. As of August 2024, twelve states signed up to follow California's Advanced Clean Car Act II, which mandates 100% light-duty ZEV by 2035. Given that we do not expect the industry to be capable of meeting the federal regulations at this time, the more aggressive California standards may need to be delayed as well. Revoking the waiver could close the matter.

2026 USMCA Review

The USMCA free trade agreement between the US, Mexico and Canada includes a required review scheduled for July 2026. We expect the 2026 review will be focused on Mexico, relative to labor rates as well as concerns that mainland China automakers will continue to increase investment in Mexico as a source for future US and Canada auto sales. Mainland China automakers and suppliers will likely undertake this investment as a workaround to access US and Canadian auto markets in the face of tariffs and other restrictions. Though what specific changes might result is unclear, the issue is expected to be at the forefront of the review.

Labor is one area where the US and Canada are likely to pressure talks. The USMCA is designed to encourage Mexico labor rates to increase, as well as to improve labor standards. Lower Mexican labor rates create an incentive for automakers and suppliers to choose investing in Mexico over the US and Canada. A review of the USMCA may further attempt to address this disparity in labor rates by either Republican or Democratic parties, while it is likely the Democratic party would also continue to push for improved labor standards. Higher labor rates in Mexico might weaken that advantage. Mexico already has mainland Chinese suppliers operating there, as well as automaker JAC producing complete knock-down kits in Mexico and BYD reviewing sites for a planned plant investment. BYD has said its final decision will occur sometime after the election, but it seems unlikely BYD will abandon the investment proposal.

Whether the Democratic Party or the Republican Party is leading the US in the USMCA process, both are concerned about the threat from mainland China. If the Republicans take full control, we expect the negotiations may take a negative turn, with more demands made of the other two trading partners; under any of the other three potential outcomes (Democrat full control or a split Congress under either Democrat or Republican control of the White House), we categorize potential for the review as somewhat negative.

So, Where Do We Go?

As we've discussed, there are four principal outcomes for the election itself. S&P Global Mobility does not predict which party will win, though we do expect the most likely results will be a split Congress is likely regardless of whether the Republican or Democratic party wins the White House. Those are the two scenarios we focus on.

If the **Republican party** wins the White House and there is a split House and Senate then we expect there will be a decision to freeze the emissions legislation covering model years 2028 through 2032. This freeze would effectively hold the regulations set for 2027 model year steady through at least 2032 model year. We would also expect to see consumer tax credits in the IRA law cut by half, and the current lease loophole to be closed.

Our scenario forecast in this case sees US battery electric vehicle (BEV) market share of new light vehicle sales reaching about 29% by 2030. We would expect the change in emissions regulations to result in a reduced focus on higher levels of electrification (including BEV, plug-in hybrid, range-extender electric and fuel-cell electric solutions), but an increase in internal combustion engines with mild levels of electrification and mild-hybrid solutions.

US Election Scenario Probable Outcomes

GOP

White House

R

House & Senate

SPLIT

- Freeze light-vehicle emissions legislation for 2028 through 2032 model years
- Rewrite MHCV GHG Phase 3 emissions regulations for 2028-2032 model years
- US BEV light-vehicle rate caps at about 29% by 2030
- IRA light-duty consumer incentive halved and lease loophole closed
- Reduced focus on BEV, PHEV, REEV and FHEV; increase ICE+ and MHEV
- Greater emphasis on small sedan, midsize sedan and full-size pick-up truck and SUV
- Total Industry Volume (TIV) rises 6% from base case forecast

Source: S&P Global Mobility

In this scenario, the impact may include lower vehicle pricing, less pressure for consumer behavioral change, a greater emphasis on small and midsize sedans, as well as full-size pick-up and SUV segments. Overall, we see this scenario with a 6% increase in total industry volume (TIV) from the base case today.

If the **Democratic Party** takes the White House we think it is most likely that the Democrats will also see a split House and Congress. This scenario could lead to EPA and NHTSA emissions regulations matched to NHTSA guidelines and for IRA consumer incentives to be protected. Though the lease loophole is still likely to be closed, there is potential for additional incentives for home chargers.

Under this scenario, we expect an increased focus on PHEV and FHEV, with a reduced focus on BEV, ICE-plus and MHEV. The changes could also create greater emphasis on sedans (small and mid-size) as with the Republican scenario, though we expect full-size pickup and SUV segments flattening. Total industry light vehicle volume would increase 2% from our base case under this scenario.

Of note, seeing increased emphasis on small and mid-size sedans in both scenarios also reflects that those segments have traditionally been more affordable as well as more efficient than trucks or utility vehicles. Regardless of political party, the US market is in need of more vehicles at affordable price points, and the industry, however slowly, will respond.

US Election Scenario Probable Outcomes

DEM

White House

D

House & Senate

SPLIT

- EPA and NHTSA emissions regulations are matched to NHTSA
- GHG Phase 3 for MHCV unchanged
- BEV rate caps at about 35% by 2030
- IRA consumer incentive maintained, lease loophole closed, add charging funding
- Reduced focus on BEV, ICE+, MHEV; increased focus on PHEV and FHEV
- Greater emphasis on small sedan, mid-size sedan, full-size pick-up truck and SUV
- Total Industry Volume (TIV) rises 2% from base case

Source: S&P Global Mobility

Risks for the Auto Industry Under either Scenario. And What About the Chevron Deference Ruling?

In any election outcome scenario, there remain more questions than answers and risk for the automotive industry, perhaps most significantly for suppliers. Suppliers have to wait to see what direction automakers take; as automakers balance moving forward with or without certainty in regulations, supplier decisions are delayed or taken in a risky environment.

If efforts were undertaken to reconcile EPA and NHTSA regulations, the decision timeline is unclear. Whether harmonization would delay or extend the existing framework or cause regulations to be rewritten with new objectives (creating a new slope for more stringent requirements) is not clear.

The question of California's exemption status also reawakens the question of state's rights versus federal oversight; as noted, the issue may need to be resolved at a Supreme Court level. In addition, for the states which the automotive sector plays a larger role in state-level economy, integrating the agenda of protecting the state's economic opportunity could clash with the expected Republican efforts to reduce manufacturing credits available in the IRA. For representatives of a Republican state with high automotive interests, support of maintaining IRA programming may be best for the state and opposite party goals. For representatives from a Democratic state with high automotive interests, if a Republican White House looks to reduce the manufacturing credits in the IRA, fighting against that change may be more in line with party goals but also more critical for representing their state.

In 2024, the Supreme Court overturned a 1984 Chevron Deference doctrine which allowed federal agencies to create regulations with the assurance that courts would defer to their statutory interpretations, preventing judges from striking down regulations based solely on policy preferences. Federal courts now have the authority to disregard Chevron Deference when assessing whether executive agencies have overstepped their authority in creating new rules. The overturning of Chevron Deference exposes federal agencies to increased litigation over regulations, including EPA's GHG emissions rules. It is also important to note that overturning Chevron will foist more policymaking demands on Congress, which will now have to delegate very specific authorities to regulatory agencies in order to ensure their enactment. Congress is actively preparing for this, but it's unclear if the legislative branch can meet this demand soon. This is also likely to even further slow the legislative process.

With policy uncertainty dovetailing with consumer uncertainty and resistance to change, decisions about timeline and transitioning various propulsion system designs continue to be challenged. Determining cost versus benefit is more difficult when the regulatory environment is at risk for change.

In the face of this uncertainty, S&P Global Mobility also sees automakers and suppliers delaying near- and long-term product planning decisions. OEMs are evaluating the solutions which enable the extension of ICE-based vehicles for longer lifecycles, recognizing that various levels of electrification short of BEV may be necessary for longer than expected. Automakers continue to develop new solutions and technologies which could change much of what is assumed about the efficacy and desirability of full hybrid, plug-in hybrid and range-extender hybrid solutions.

Automakers still recognize zero emissions vehicles as part of a larger carbon net-zero goals. While making changes and retiming investments can cost automakers billions, they are looking to avoid creating future losses by bringing technology to market ahead of consumer demand. In addition, program decisions are being held off awaiting the outcome of these open issues has long-term implications to product development. Delaying decisions delays development work, which can have an outsized impact on product development cycles, impact competitiveness in the market and directly impact what products (and when) will be available for consumers.

There is pushback on current US regulations from dealers and consumers, creating opportunities for deeper discussion about the severity of current regulations, both at a state level with the California ZEV mandate, and at a federal level looking at EPA and NHTSA requirements. In addition, the US House recently passed a bill which would eliminate the EPA's ability to regulate emissions permanently; while this bill has hurdles to face and may not survive, it reflects that the 2024 election cycle is not the only source for pushback on current EPA regulations.

For the auto industry, uncertainty related to regulations has been one of the most difficult elements to navigate, and uncertainty is rampant today. The November 2024 election follows other recent elections for having potential for massive impact on the auto industry. The impact and related uncertainties touch nearly every facet of the industry. Once the makeup of the next US presidential administration and Congress are settled, the industry should have a better grasp of what the next four years will look like, relative to some US policies. Whatever changes or stays the same in policy and regulation, a consistent framework is what the industry needs to better navigate and understand how to compete profitably in the US market.

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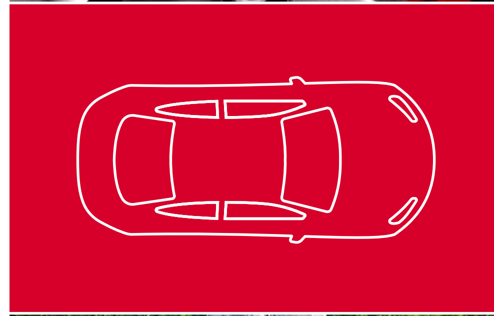

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