Industry transformation amid tariff dislocation

Navigating tariff pressures: strategies from the auto, pharma & consumer goods sectors

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Industry transformation amid tariff dislocation

Overview

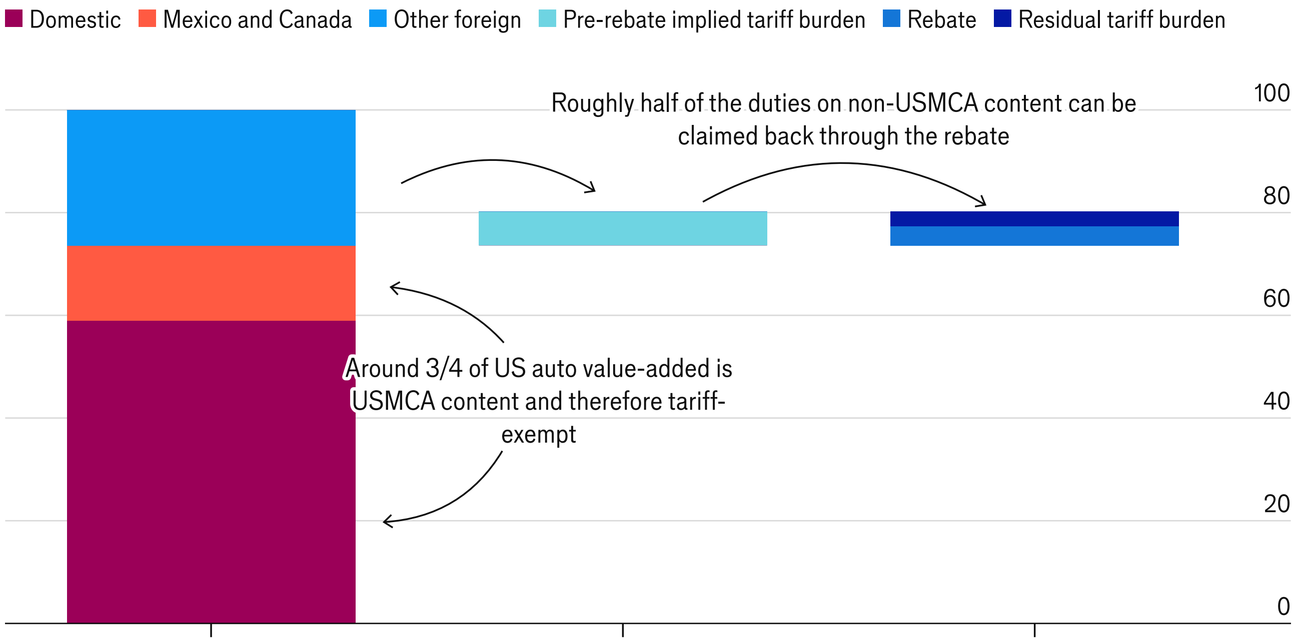
Across sectors, businesses are responding with price increases, product range adjustments, investment in domestic production (notably in pharma), and pursuit of trade deals to mitigate their exposure to new US tariffs. This indicates a broader shift in industrial strategy and supply-chain configuration due to geopolitical pressures.

Automotive: tariffs have taken effect

On May 3rd the US imposed the second set of its 25% tariffs on automotive imports–slapping a 25% levy on key parts, including internal combustion engines and their components, transmissions and powertrain parts and electrical components. This tariff, in addition to the 25% levy on imported light vehicles that took effect on April 3rd 2025, will result in extra costs for automakers, although US-based production will benefit from some rebates.

Auto parts rebate will halve the tariff burden on US-assembled cars

Value-added share of total final demand, motor vehicles, by source; %



Note: Auto parts cost shares are proxied with 2019-20 OECD-TiVA value-added data and define the non-USMCA segment as the residual after removing US, Mexico and Canada. A uniform 25% tariff is then imposed on that residual share and offset by the 3.75% of vehicle-value rebate. The net levy is expressed as a percentage of total vehicle value.

Source: OECD TiVA; EIU.

The measures are already having an impact on the US automotive market, as carmakers and car buyers pull forward their purchases. In the first quarter of 2025, domestic automotive imports increased by an average of US$1.2bn month on month, according to data from the US Bureau of Economic Analysis. In line with this, US light vehicle sales in the first quarter of 2025 were also up by 4% year on year, as motorists pulled forward their purchases in a bid to avoid potential price hikes from April onwards.

With the effect of May's tariffs only just feeding through, further price increases in the year are likely. This will weigh on US auto sales in the second half of the year. While imports of heavy trucks are not currently affected by the automotive tariffs, manufacturers of these vehicles are being hit by new tariffs on steel and aluminium, presenting a further challenge for the industry.

Auto trade partners looking to trade deals to reduce the hit

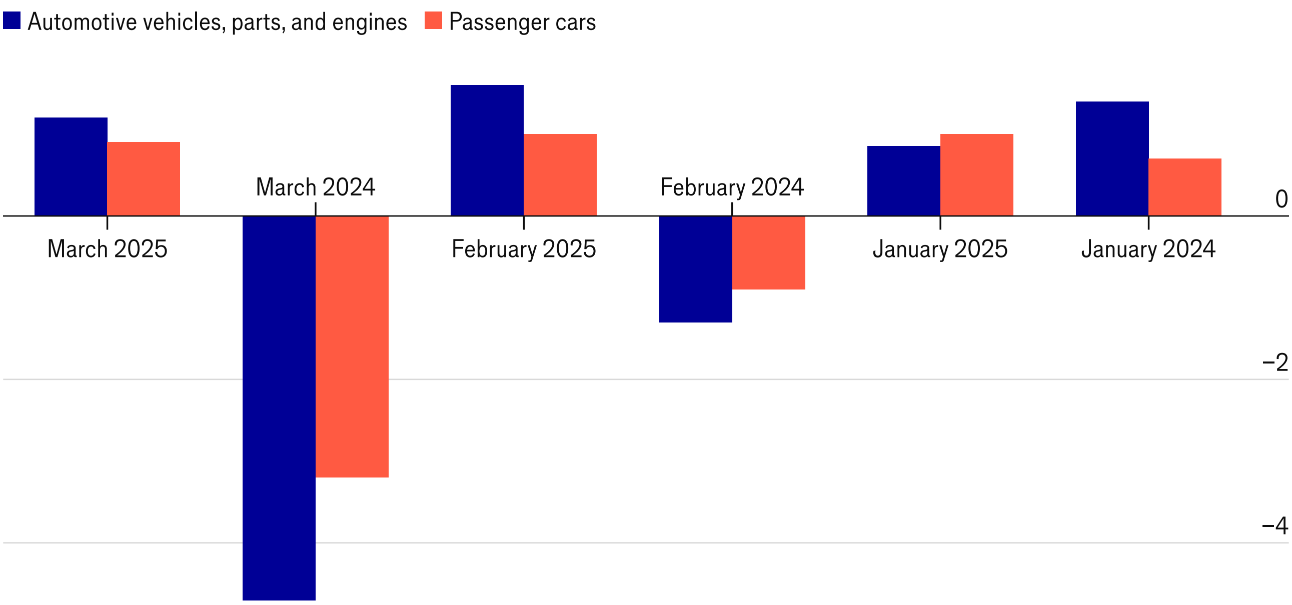
Looking to provide a fillip to its economy and the automotive sector, the UK signed large trade deals with the US and India in May. The agreement with the US, announced on May 8th, is a preliminary 12-month interim trade de-escalation, which should lead to a wider deal later. The agreement includes an export quota of 100,000 UK cars, which will now face only the 10% reciprocal tariff that the US applies to all trade partners (rather than the existing 25% auto tariff).

The agreement is a notable victory for the UK's floundering vehicle-making sector, as the export quota will cover more than 80% of UK car exports to the US (about 100,000-120,000 units a year). This will support British automakers such as Jaguar Land Rover (JLR; owned by India's Tata Motors), Rolls Royce and Mini (which are owned by Germany's BMW), and Aston Martin (UK). None of them currently has a manufacturing presence in the US. However, the agreement does not cover British exports of vehicle components to the US, which totalled US$600m in 2024.

Japan, Canada, Mexico and the EU are likewise banking on trade deals to reduce the hit.

US automotive imports have been front-loaded, ahead of damaging tariffs

Month on month change in absolute terms; by value (in US$bn)



Source: US Bureau of Economic Analysis; EIU.

Structural transformation

Affected carmakers will narrow product ranges and focus on locally made models to maintain market access in the US. They are also rushing to make their component imports compliant with the USMCA to avoid tariffs and benefit from rebates. Even so, most carmakers are also cutting back on rebates, discounts and trade-in deals for their cars, effectively raising prices. EIU has cut its forecast for US car sales.

Outside the US car prices are likely to fall as vehicles previously destined for the US are rediverted. This is particularly true for Chinese-made electric vehicles, although the EU and others are poised to raise their own trade barriers to counteract this. These short-term measures will not be enough to cushion the full impact of tariffs, however. We expect the industry to be forced to reduce jobs and consolidate, particularly if the global economy slows further.

Pharmaceuticals

On April 2nd 2025 US president Donald Trump exempted most pharmaceuticals from his raft of reciprocal tariffs. The concession was likely prompted by concerns over how voters would react to higher prices and drug shortages, as well as the additional burden on public health spending. However, Mr Trump has warned that the sector remains under review and that pharmaceutical companies need to move production to the US to avoid being hit by tariffs in future. He is also using the threat of tariffs to push pharmaceutical companies to reduce their prices in the US, under a “most favoured nation” plan that aims to align US drug prices with those in other developed nations. The ensuing drug price negotiations are likely to be only partially successful, which means that the tariff threat will remain.

Most medicines used in the US have long been exempt from import tariffs, as agreed under the World Trade Organisation’s Pharma Agreement of 1994—although some medtech products, such as rubber gloves from China, were hit by 25% tariffs under the administration of Joe Biden. This international exemption reflects the fact that tariffs would have to be added to drug prices, and therefore would be paid directly by patients or by governments (via public health funds).

The US government health funds, Medicare and Medicaid, account for a combined 43% of the country's pharmaceutical spending, supporting those with low incomes, the elderly and the long-term sick. Much of the rest is spent by the working-age population, either out of pocket or via private health insurance, so reducing access to medicines would also affect the labour force and therefore US productivity.

Pharma exemption will offset US tariff hike for some European countries

Trade in pharmaceutical products; HS30 in current US$ bn; 2024

	US imports	% of total imports	US exports	% of total exports	US deficit	% of partner's trade deficit*
Ireland	50	24	5	5	46	53
Switzerland	19	9	3	3	16	41
Germany	17	8	8	8	10	11
Singapore	15	7	2	2	14	na
India	13	6	1	1	12	24
Belgium	12	6	5	5	8	na
Italy	12	5	3	3	8	18
China	8	4	10	10	–2	na
Japan	7	4	8	9	–1	na
UK	7	3	6	6	2	na

*Where applicable

Source: UN Comtrade; EIU.

However, targeted pharma tariffs remain possible as the Trump administration tries to force companies to move their production facilities to the US. We think the Trump administration is likely to focus its tariff threats on producers of advanced patented medicines, particularly those for cancer, cardiovascular diseases and obesity. Ireland could be a particular target, in order to put pressure on US companies such as Merck and AbbVie, which have moved operations out of the US to benefit from lower taxes. However, the easiest targets for tariffs would be more generic medicines, particularly consumer health products such as vitamins, which can be easily replicated within the US, albeit at a higher price.

New investment strategies

In reaction to the tariff threats, many major drugmakers have recently announced plans to increase their investment into US drug production, including research and development (see chart). While some of these investments are a repeat of earlier announcements, some reflect the expansion of new drug areas, particularly anti-obesity medications (mainly GLP-1 drugs). Some investments will also be used to ward off the possible impact of higher tariffs and tighter approval processes.

Top drugmakers have raised their investment targets for US production and R&D

The threat of potential tariffs on pharma imports in 2025 has been a key driver for enhanced funding

Company	Investment (in US$ bn)▲	Timeline
AstraZeneca	3.5	2024-26
Merck	9.0	2025-28
AbbVie	10.0	2025-35
Novartis	23.0	2026-30
Eli Lilly and Co	27.0	2026-30
Gilead Sciences	32.0	2025-30
Roche	50.0	2026-30
Johnson & Johnson	55.0	2026-30

Source: Company filings; EIU.

Consumer goods

The US remains heavily reliant on imports, especially for non-food items. While tariff reductions with China will maintain trade flow, historically high tariffs will lead to higher consumer prices in 2025. The impact on prices will vary by company and product, with premium goods potentially absorbing costs while low-cost items risk discontinuation.

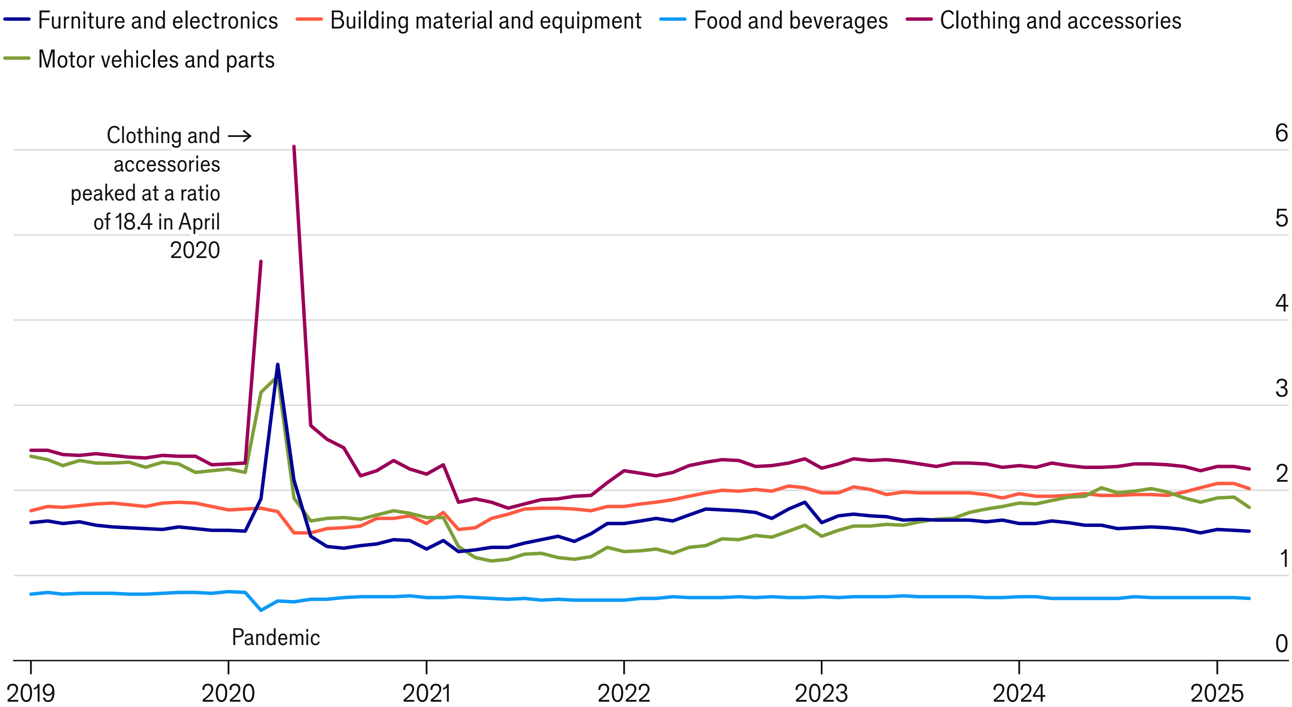
Some businesses may also raise prices globally to mitigate the impact on the US market and avoid government backlash. Others may further their ‘China+1’ strategy by moving production to other countries, including the US, but that is likely to come along with price rises. The adverse impact on affordability along with EIU’s baseline forecast for a recession magnifying the risk of higher unemployment will hurt consumer spending.

Frontloading and just-in-time models

Despite frontloading since the start of 2025 retailers had on average enough inventory in April 2025 to last less than three months, suggesting that price increases will feed through fairly rapidly—as Walmart and others have warned. However, the pace and amount of increase will vary, not just by company but also by product. Premium products with higher margins may offer businesses an opportunity to absorb some of the higher costs themselves. That is unlikely to be the case for low-cost products, some of which may be at risk of discontinuation if demand proves to be inelastic. To minimise the impact on the US business or avoid any backlash from the government, some businesses may even decide to raise prices worldwide rather than just in the US.

Most US retailers have returned to just-in-time models

Despite front-loading they have just 2-5 months of inventory on average inventory to sales ratio for US retailers; seasonally adjusted



Source: US Census Bureau; EIU.

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