Auto Physical Damage

Episode 14: Trade Tensions, Tariffs and Their Toll

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With the introduction of new U.S. import tariffs, auto insurers and collision repairers are navigating an uncertain future. In this episode, Ryan and Bill Hanvey, president and CEO of the Auto Care Association, discuss the downstream impact of tariffs on the industry and how some businesses may be preparing for potential disruptions.

Ryan Mandell: Welcome back to the Mitchell Collision Podcast. I'm your host, Ryan Mandell, and this is our very first episode of 2025. And, gosh, we're already about a month and a half into the year and it feels like it has been six months with all the things that have been going on. And one of the biggest topics that has come up in recent weeks has been this looming threat of import tariffs. So we're getting a lot of questions from shops, from insurance carriers. So we wanted to bring an expert onto the show today that has exposure to a wide variety of the automotive industry. We're very pleased to have with us today the President and CEO of the Auto Care Association, Bill Hanvey. Bill, welcome to the program.

Bill Hanvey: Ryan, it is a pleasure to be here. And thank you, everybody, for joining us.

Ryan Mandell: So, Bill, before we jump into this topic around tariffs, the collision industry, I don't know is as familiar with the Auto Care Association. So maybe you could just give us a brief overview of what the Association does and what your mission is.

Bill Hanvey: I'd be happy to. The Auto Care Association is kind of unique, Ryan, in that we represent the entire repair supply chain and that entire supply chain includes aftermarket part manufacturers, original equipment part manufacturers, distributors, retailers, shops, all the way down to the collision shop on the corner of Elm and Main, or the regular shop, the mechanical shop on the corner of Elm and Main. So we represent the entire industry. It is $500 billion strong, 5 million employees within our purview.

I started my career 40 years ago and haven't left since. And as far as the Auto Care Association and in collaborating and bringing benefits to the collision side, we do have a community on the collision side and it's called Paint, Body and Equipment Specialists Community, or PBES, as we affectionately call it internally. And that is a community of collision shops. It is a community of collision part manufacturers, chemical manufacturers and paint manufacturers. We come together about two or three times a year to discuss issues within the collision industry. And quite honestly, it's something, Ryan, that we're really focusing on this year and next year to expand that community a little bit by letting people know that there is an association out there that can also provide some benefits.

Ryan Mandell: Well, that's fantastic to hear. And I think a lot of the folks in the collision ecosystem here, I don't think, are as familiar with the Auto Care Association. I think that's great that you're making that goal to reach out to that industry more broadly.

Bill Hanvey: And it's a critical industry too, Ryan. I don't need to tell all of you that. You have the first glance at many of these part replacements and you are the front-line folks. So that's something very important for us.

Ryan Mandell: And it's interesting because a lot of times, the collision industry is actually the first ones to get a crack at a vehicle because these newer vehicles might be getting into an accident before they've ever even been serviced. So there is a lot of, I think, learning that can happen as a result of the collisions and the work that's being done by these shops.

Bill Hanvey: There sure is. And then that's why we're really leaning into it and expanding that community for sure.

Ryan Mandell: So I'm glad you mentioned that your association works with many different segments, including OEMs and aftermarket providers. That's really important in this tariff discussion because what we're hearing is it's going to impact different segments in different ways. So maybe we can just kind of set the stage a little bit for this tariff discussion and talk about what these tariffs are. How are they implemented? I'm not sure if you have visibility into the exact way that the federal government is able to impose these tariffs. Maybe we can just kind of start there and we'll see how that evolves.

Bill Hanvey: Sure. And, you know, we have been experienced with tariffs for quite some time now. And with President Trump's first term, we had quite a bit of interaction with 301 tariffs on China, so on and so forth. And for this round of tariffs that are on suspension with Canada and Mexico right now, how he is implementing those is through what they call IEEPA and that is called International Emergency Economic Powers Act, IEEPA. And the reason that the administration is using IEEPA to implement these tariffs is to prevent the flow of fentanyl and illegal aliens into the country. So they are using the powers that are granted to the federal government under this federal law that allows the federal government and the president to counter unusual and extraordinary threats to national security without requiring congressional approval. So it does require congressional purview, but that IEEPA is how the executive branch is beginning to implement these tariffs.

Ryan Mandell: And is there a consolidated process for the collection of these tariffs?

Bill Hanvey: If there is a ship in the port the day that the tariffs go into effect, that particular shipment will be tariffed coming in. So it's got to be, you know, the point of departure has got to be after the date of the tariff and

then it is invoiced right through that particular shipment.

Ryan Mandell: Interesting. If these tariffs do become unsuspended and go back into effect, really, they start to impact these manufacturers or importers day one.

Bill Hanvey: That's correct.

Ryan Mandell: Do you have an idea of, because this is the question we get asked all the time, what percentage of parts come from these different countries?

Bill Hanvey: I wish I could tell you. But here's what we're going to do. Number one: what percentage of the original equipment parts are manufactured in Mexico, China and Canada? A single wire may originate in Canada. It might travel down, then down to Mexico to be included in a wire harness. That wire harness then could be finished in Mexico, sent to the United States and then put on the car. So to follow the path of a particular part that winds up in original equipment production, as I mentioned, it not only could cross the border two or three times, but it could cross several borders. So that's why it's really important for us to understand that in most cases, there's not a single point of origin for these parts. But what I can tell you is how much we import and export from various countries. So the total number of imported parts to the United States is about $138 billion, actually close to $139 billion. Parts imported from Mexico account for nearly 50% of that. Second is Canada at $16 billion. And third is China at $11 billion. And then those are parts that are imported here to the United States. Now, on the opposite side of that equation, we export about $51 billion. And Mexico is the recipient of about $20 billion. Canada, $18 billion. So you can see with Canada, we actually export more parts to Canada than we import from Canada. So if Canada decides to put a reciprocal tariff on that, then we're going to get a double whammy.

Ryan Mandell: Absolutely. That's a big question that we get because we do a lot of business in Canada. I think they're very reliant on U.S. manufacturing for a lot of crash parts.

Bill Hanvey: Absolutely.

Ryan Mandell: And so I know there's some manufacturers that do work in Canada like Ford, GM, Stellantis, and I think Honda and Toyota. But it's not clear on what degree of manufacturing is going on there. I think I read somewhere maybe 62% of parts that are going on Canadian vehicles come from the U.S.

Bill Hanvey: Exactly. And that was to my point before, is that these parts when you have a finished automobile, there are parts on that vehicle from all corners of the globe. And, you know, that wiring harness that I pointed out earlier that could have crossed the border, as I mentioned, five or six times to be a finished product. So we are a global industry.

Ryan Mandell: I've heard that said about how parts cross multiple borders or cross borders multiple times. And, honestly, it didn't really make a whole lot of sense as to why that would happen until you just outlined it the way you did. Is it safe to say that maybe these more complex assemblies would be more exposed to that trend as opposed to something like a hood or a fender? So maybe like these technological components, these cameras and sensors that have a variety of different components that go into them?

Bill Hanvey: Without question. I think that's a really good point, Ryan. So I think the more sophisticated the part, the more that you would have an opportunity for that part to originate in one area of the globe, cross the border three or four different times and then wind up on the OE production.

Ryan Mandell: Do you know if it's based on country of origin or is it just based on point of entry?

Bill Hanvey: Point of entry.

Ryan Mandell: Point of entry. In the collision industry, a lot of those aftermarket parts come from Taiwan and would not be subject to those tariffs. I know over the years there has been a lot of concern about a potential China-Taiwan conflict. Have aftermarket crash part manufacturers started shifting their production to other countries outside of Taiwan, or is it still really heavy?

Bill Hanvey: I can answer that generically, Ryan. We know that part manufacturers are really looking to explore other avenues for production around the globe. And everybody got burned during the pandemic. Everybody is looking for alternative sources. We have our big trade show in Las Vegas. And we have seen an explosion in other suppliers from different countries coming to the show and exhibiting their parts. So I think the world is a giant shopping basket right now for these particular part manufacturers. And all of them are looking to either reshore, looking for lower cost or more stable production environments. India, Vietnam, Taiwan, as you mentioned. So all of them are in play for sure, Ryan.

Ryan Mandell: That's really interesting. When we're looking at the impact that this could potentially have on collision costs, I know that the big thing people want is what percentage is the claim going to be? How much more expensive is the claim going to be as a result of this? You know, it's so hard to put a number on, but do you have any kind of grasp or any sort of ballpark idea of what that might look like or what that impact could be? Again, understanding the vagaries of it depends on the manufacturer, depends on the part time, all of these different things.

Bill Hanvey: Number one, I looked at what would be the implications for a new vehicle originating in Canada or Mexico. J.D. Power estimated that it would add approximately $2,600 to the cost of a new vehicle. I did do some research on common part replacements, let's just take a brake job, for example. If you have a brake job of pads, rotors and calipers, typically, that would run anywhere between $600 and $1,000. Now we're estimating that job would go anywhere between $750 and $1,200. On the collision side, too, is that availability. In many cases, these parts are not necessarily produced for original equipment anymore. So they're truly aftermarket parts. They're short line. So they're not cranking out hundreds of thousands of doors or hoods. So finding that short-line manufacturer that is going to manufacture 500 hoods, 500 doors for an older application is going to get more and more difficult as these tariffs begin to take effect. Or those particular parts for older vehicles, in some cases Ryan, on the collision side would be more expensive than a newer vehicle.

Ryan Mandell: And I think that's a really good point. People don't necessarily talk much about the availability concern that this could bring, but it certainly could do a number of things. As you mentioned, it could shift the willingness of some of these manufacturers to produce those parts. Because from what I've come to understand, the manufacturing strategy for OEM replacement parts is very different than the aftermarket. Would you agree?

Bill Hanvey: Without question. So my expression is you're an OE supplier to keep the machines running and you're an aftermarket supplier to keep the money flowing.

Ryan Mandell: Interesting.

Bill Hanvey: Right. So there is a very interesting relationship between OE production and aftermarket production. And you don't want to be totally in on either one because of some of the situations such as this when they present themselves.

Ryan Mandell: Now, when you say OEM versus aftermarket happening in the same facility, do you mean more of a factory part versus a dealer replacement part? Or is it truly a dealer versus an aftermarket part?

Bill Hanvey: No, this would be a factory part.

Ryan Mandell: So factory versus dealer replacement? Gotcha.

Bill Hanvey: Yep.

Ryan Mandell: That makes sense. Because if you compare that to the true aftermarket parts, those are more of a just in case type of manufacturing model from what I understand as opposed to this just in time that the OEMs are really relying on. So the OEM can be disrupted much more quickly than the true aftermarket parts. Would you agree with that?

Bill Hanvey: Without question.

Ryan Mandell: Maybe we can look at this two different ways. Maybe an insurance company first. So if you're running a big insurance company, whether it's U.S. or Canada, what are some things that you would do to try to insulate your business from a potential disruption that could take place?

Bill Hanvey: Number one, as an insurer, I would have to be more diligent in approving what parts are going to be utilized on a particular repair. I think it's going to put the onus on, in many cases, on the collision shops to be more diligent about their parts replacement. I think the insurance companies are under a tremendous amount of pressure. And, you know, insurance is one of the leading causes of inflation right now because of obviously natural disasters, obviously because of the increasing cost of a vehicle, and the cost to replace a bumper is not $500 anymore. It's a camera, two cameras, a bumper and the alignment to go with it. So if I'm an insurance company, I am going to be very specific in terms of who I would recommend for product replacement. And obviously keep an eye on, you know, what is being produced, where to try and alleviate that if they go into effect, the 25% rate from Mexico and Canada. If I'm an insurance company, can I specify that an aftermarket part has to come from a non-tariffed region? It could go that far, right?

Ryan Mandell: It could. And it’s very difficult to control that aspect. I think it requires more transparency into the sourcing of these parts. Do you think there's an opportunity for shops here? I mean, clearly, they would see an increase in revenue from the parts increases by themselves. But do you think there's an opportunity for them to maybe repair more parts, as they've got kind of more of a threshold, a higher threshold before they get to the break-even point where it makes sense to replace that part? But on these parts where the damage might be borderline, would repair potentially be more appealing now because there could be this availability crisis and this higher price point for their insurance partners?

Bill Hanvey: Yeah, without question. I think that's a great point, Ryan. And it may create a little bit more curiosity at the shop level in terms of, you know, I can't get this through on the insurance side, but what can I do to get it repaired within my customer’s budget? So I think you bring up a very good point. You know, there could be a lot more repair on that side instead of replacing an entire bumper. Can I pull it, put it in a new sensor or whatever the case might be.

Ryan Mandell: Yeah, I think it impacts the entire ecosystem. And maybe just the last component of this, you touched on the rise in whole vehicle prices, which clearly would trickle down to the used market.

Bill Hanvey: Without question.

Ryan Mandell: We would expect you to see increased demand for used vehicles. So to kind of reverse the trend of the price correction that we've been seeing, what about the salvage industry? I mean, I would imagine that this would eventually trickle down to that as well, where we see an increased demand for salvage vehicles and from a number of different channels. What do you expect would be the impact in that segment?

Bill Hanvey: Well, you know, the salvage industry, the threat there is that they're just going to be depleted of inventory. Right? So true salvage parts. And, you know, we all know that the salvage industry supplements their inventory with new parts or remanufactured parts. So it will be interesting to see how they react if they've got a part that has been pulled from the crash and sitting next to it, they've got an aftermarket part that they've imported from Mexico. How do they price those two different parts?

Ryan Mandell: Right.

Bill Hanvey: My guess would be they would price it up to the to the higher unit. But who knows? It's got to be a very deliberate way to look at your inventory. But you can guarantee that the inventory of crash parts is going to be diminished.

Ryan Mandell: And do you think part of that equation is because there would be fewer total losses? Is that part of it, because the values of the vehicles?

Bill Hanvey: No, my theory is that there's only a limited supply of those crash parts. And that would be the first choice of a repairer. And once that limited universe of crash parts is done, they have to supplement their inventory with new or remanufactured.

Ryan Mandell: So it would drive more demand for those parts?

Bill Hanvey: That’s correct.

Ryan Mandell: And also those parts initially would be a little bit more immune from these tariffs, the recycled parts themselves because they're there onshore already. And, typically, those parts aren't crossing borders. There's not as much trade between the U.S. and Canada when it comes to the recycling industry, from what I understand.

Bill Hanvey: That's very true. It's very regional.

Ryan Mandell: Exactly.

Bill Hanvey: Very regional. So buy a total at an auction, strip it, inventory it, typically and I'd love to see that statistic too myself, but I would say within 25 to 50 miles of a recycler, that's their universe.

Ryan Mandell: Having come from the recycling industry, you definitely have some logistics that can move those parts to different regions. We were in the Pacific Northwest. We rarely sent anything even into the metro Vancouver area. It was time prohibitive, more than anything, in terms of getting across the border. So I think that I think you're right. I agree with you. I think it would definitely drive that immediate demand for those recycled parts and that could absolutely result in that supply constraint after a period of weeks.

Bill Hanvey: Right. You only have so many crashes, right?

Ryan Mandell: Well, Bill, I just want to say thank you again for your time today. The Auto Care Association does such great work. We at Mitchell, we do help contribute to the data research that is done annually with the Auto Care Association Factbook. I myself serve on the Market Intelligence Committee. So it's definitely a great partnership. And I love what you guys are doing in the industry, and I just can't thank you enough for sitting down and talking about this complex topic. And, gosh, it seems like it's changing almost daily.

Bill Hanvey: It is, Ryan. And what we talked about may be obsolete tomorrow.

Ryan Mandell: It sure could.

Bill Hanvey: But that's something that's very important is that, you know, your listeners can rely upon you. They can rely upon the Auto Care Association at least to give them the most up-to-date answer. And for all the folks in the industry to know that we're advocating on their behalf, and we so appreciate your support. Collision is a critical part of our industry. And as I mentioned before, I want to get a chance to understand it a little bit better. We genuinely appreciate this opportunity.

Ryan Mandell: Likewise. Well, fantastic. Thanks so much again, Bill.

Bill Hanvey: My pleasure, Ryan. Thank you.

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