Auto Physical Damage

Episode 18: Tariffs, Technology and Total Loss: What 2025 Tells Us About 2026

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In this episode, host Ryan Mandell reviews key collision repair trends from 2025 and shares his outlook for 2026. From parts inflation to tariff impacts and total loss frequency to calibration growth, he explores the forces shaping the industry. The podcast highlights how these factors are influencing severity, repair economics and strategic decision-making for both carriers and repairers—and what to expect in the year ahead.

Ryan Mandell: Welcome back to the Mitchell Collision Podcast. I'm your host Ryan Mandell. Today, we're going to be taking a look back at 2025 and doing a little bit of a year in review, as well as looking forward to what we can expect throughout the rest of 2026.

Now, there are a number of different things that are on people's minds today as we think about the collision repair and auto insurance industries, not the least of which being tariffs, total losses and technology.

So we're going to talk about all those different subjects today, as well as give an update on the macroeconomic environment that we find ourselves in and really what that is doing to the claims dynamics and the economics of repair.

On our last episode, we talked about the changes in the average first-party deductible, and we've continued to see that change throughout 2025.

If we look at the year-end 2025, the average deductible in the U.S. was up about 3.25%, so that's starting to flatten out a little bit. We're not seeing the same kind of acceleration of that growth in deductible. It feels like we're really reaching that plateau in terms of the rise in first-party deductibles.

Now in Canada, there's still a little bit of room to run. We actually saw about an 8% increase in Canada in first-party deductibles. So, the rise that we saw here in the United States, it started a little bit later in Canada. We probably have a little bit more runway there when it comes to seeing those deductibles grow.

Why is that important? Well, it really matters because that changes the decision-making from a consumer standpoint on when you get your vehicle repaired. We're really talking about first-party accidents, but especially single-vehicle accidents. Single-vehicle where there's only damage on your own vehicle.

When you have a higher deductible, that's going to mean that it's much less likely that you're actually going to proceed with the claim. You might do one of two things: either just live with the damage the way it is or pay out of pocket for those repairs.

We hear from a lot of our shop clients that they're seeing customer-pay jobs right now at an all-time high. And this is something that there's different dynamics around a customer-pay repair order than an insurance-pay repair order. Consumers have different priorities when they're paying for the repairs out of pocket as opposed to their insurance company.

So, it looks like what we'll probably see is this continued flattening out in 2026 in the United States and probably still a little bit of increase in Canada. Again, that rise started a little bit later.

When we look at severity so far, obviously 2025, not a fully mature data set as of yet. So definitely still going to be some development in these numbers, keep that in mind as we're talking about what this growth rate looks like.

But we're seeing in both countries, both in the U.S. and Canada, almost a 2% growth over 2024. We expect that to mature a little bit, so we're probably going to end somewhere in more of the 3-5% range when all is said and done.

We're looking at about 1.8% right now, when we look at the average cost of repair in both countries compared to the prior year. So, we're continuing to see cost of repairs increase. It's not going down.

A big part of why that's actually happening is because of inflation. When we looked at the first half of the year, inflation was very, very tame. We were actually seeing about 3.5% inflation in the average cost of parts. We're talking about parts specifically here.

So, we track a common consistent grouping of parts, we are seeing about 3.5% inflation. And that was fairly in line with what we were seeing in 2024. So, not a whole lot of acceleration in the first part of the year.

I think that probably surprised a few folks because they were expecting tariffs to really have almost an immediate impact and I think there was a lot of fear about what tariffs were going to do to the cost of repair.

Now, what we started to see in the second half of the year is that number started to accelerate. We were seeing in 2025, the full year about 4.25% inflation that compared to 2024, it was very consistent throughout that period in time. It was about 3.5%

So, we are actually seeing inflation start to ramp up in the second half of the year. We're starting to see that in different pockets of parts more so than in others.

For instance, if we look at bumper covers, bumper covers only saw about a 3.2% inflation rate in 2024. However, in 2025, that number jumped to about 6.7%. A fairly large increase when you look at that rate of inflation. We're talking about more than doubling that rate of inflation.

Whereas other parts, we were seeing higher rates of inflation. Door shells, for instance, a little over 7% inflation in 2025. However, that was fairly consistent to what we saw in 2024, which was about 6.5%. So not as much growth there.

It really depends on the part type and it depends on the manufacturer, when we look at those individual part types. Looking at these inflation numbers, it's important to remember that we're talking about OEM parts here.

So when we're looking at those OEM parts, it's going to depend on where these manufacturers are sourcing not only the parts from, but we have to remember they're sourcing raw materials from different locations as well.

A lot of these polyolefin plastic components, the raw materials, are coming from China. And so, those are going to be more exposed to some of those inflationary tariffs and those are going to get passed on to the end consumer.

Now we're not seeing inflation so much when it comes to whole vehicles. So why is that? Why are we seeing inflation in parts as opposed to whole vehicles?

Well, when you think of it from an OEM standpoint, the OEMs are going to be much more hesitant to increase prices on their whole vehicles because that is where there's going to be more direct competition that they're facing with other manufacturers, with other automakers in the market.

And they don't want to price themselves out above their competition unnecessarily.

When it comes to parts, it's a little bit more clear-cut because they're not necessarily facing the same kind of direct competition. When parts are needed for their vehicles, it's because there is a need for that specific car, for that specific part.

So it’s a little bit easier to start increasing prices on those parts, and this is something that is necessary. And unfortunately, this is necessary for OEMs to do because of the fact that they are taking hits because of tariffs, it is directly impacting their bottom line.

A lot of these manufacturers, even the domestic ones like GM, are importing a lot of goods, a lot of parts and a lot of vehicles. GM is actually one of the largest importers of vehicles from Korea, for instance. So just because it's a domestic manufacturer does not necessarily mean they're better insulated from tariffs than others may be.

As a result of that, you are seeing that those manufacturers have to pass along some of those costs to the end purchaser of those parts, whether it be a consumer, whether that be a body shop or other entity.

We are seeing that those tariff-related price increases are starting to happen when we look at OEM parts.

I think this is part of the reason we've seen more of an interest in focusing on the use of alternative parts, higher utilization of alternative parts. We've seen that across the board, both in the United States and Canada.

More utilization of both aftermarket, recycled and remanufactured parts to the tune of nearly about a 1.5 point increase in the United States and almost 2 points in Canada year over year.

Again, a little bit of development is going to take place there when all is said and done, but we are seeing continued growth in the utilization of those alternative parts.

I think two things are at play here. Number one is I do believe there is a desire by insurance carriers to help insulate themselves against tariff-related parts cost increases. But additionally, we've also seen that inventory levels are more robust today than at any time in the last six years.

We are seeing now, especially aftermarket inventory levels are normalized, they're back to pre-COVID levels. So, that allows for more consistent sourcing of these aftermarket parts.

When you look at recycled parts, the supply chain is much more consistent now. We now have a period of several years of more consistent accident volumes, which is driving more consistent salvage volumes. Meaning that recyclers are much more reliably able to source and dismantle these vehicles and, thereby, harvest the necessary parts from those vehicles.

One of the other interesting things that we've seen has been the change in the repair percentage, meaning that the percentage of parts that are actually repaired as opposed to being replaced.

If we look back probably about over the course of the last decade, we've been seeing this number gradually decline, especially if we look at certain part types like bumper covers, for instance. Very consistent declines over the last decade in this number, because the addition of technology to these vehicles means that in many cases it's actually prohibitive to repair certain parts because of the presence of sensors behind those parts—as well as the change in material types go into more lighter weight substrates throughout the vehicle.

However, over the last two years, we've seen that trend start to reverse. 2024 saw a little bit of a flattening of that trend. There was a slight increase in the United States, about a quarter point. Canada was completely flat, but it did not go down.

Now in 2025, we actually saw the United States increase by almost a full percentage point in terms of the percentage of parts being repaired and the Canadian industry saw almost a quarter point increase. So, we're starting to see that trend reverse.

I think this is surprising to some people because there has not been any sort of reversal in terms of adding more technology to vehicles or moving away from the use of lightweight substrates, those trends continue. Yet we're seeing the percentage of parts repaired start to increase.

I think the big reason why that is happening is because of the fact that we do see reduced claims volume. We do see reduced volume overall of vehicles going into collision repair facilities. It's not what it was back in 2023.

So when that happens, it is going to be more difficult for shops to meet their profitability goals. What they can do to ensure that they are being more profitable is to increase their margins.

We're talking about on average when you look at labor versus parts, labor on average is somewhere around the 60% ballpark in terms of profit percentage compared to 30-50% for parts, depending on whether it's aftermarket, or OEM or recycled.

It really is a high margin opportunity and what it does is allow shops to also increase their throughput, they're not having to wait for parts. They're not having to worry about a part coming in damaged or the wrong part showing up.

When that happens, what that does is allow for the shop to be able to continue to move along with the repair.

I think that's what's going on here and that's really why we are seeing an increase. A lot of shops are focusing on, especially when you look at some of the large consolidators throughout the industry, they're looking at repair percentage as a way to improve their bottom line. Not only from a pure bottom-line gross dollar standpoint, but also from a margin standpoint.

When they're not having to make the same sort of capital outlay in terms of acquiring replacement parts, it gives them more flexibility of cashflow, and that's definitely something that's a big benefit for collision repair facilities.

So we talked a little bit about tariffs, let's touch on technology real quickly. We continue to see more and more safety components added to these newer vehicles. We continue to see a growth in the percentage of vehicles that are getting calibrations. We're getting very close to reaching 40% as an industry, and that is something that is definitely going to continue to add to the overall cost of repairs.

On average in the United States, calibrations are adding roughly about $600 to the cost of estimates when they're present. In Canada, that number is more around the $400 to $450 range. Roughly about 10% of the cost of the estimate here is being tied up with calibrations when they are present.

And that's definitely something that's going to become more and more ubiquitous as time goes on.

When you look at the growth of different segments of the industry, we continue to see that the average age of vehicles on the road is getting older. We're approaching about 13 years average age of vehicles on the road.

When we look at the collision industry, typically every single calendar year, the average model year of vehicles being repaired gets about a year newer. It just kind of follows that way pretty consistently.

Now we're not getting quite a full model year when we look at 2025. We're about eight tenths of a model year. The vehicles aren't getting newer as quickly as they have in the past. I think a lot of that relates to those older vehicles on the road.

However, when we look at the individual segment we did see the biggest growth in the 0-3-year-old vehicles. And what that means is that those are the vehicles that are going to have the higher cost of repair.

If you actually look at the 0-3-year-old segment and compare it to, for instance, the 4-6-year-old segment, it's about 10% on average more expensive to repair those vehicles.

There is a delta there, and that is driven by that technology. It's driven by the presence of those different safety systems and has myriad impacts on many of the different decisions that are made throughout the course of a collision repair.

Not only just do you have to deal with the technology, but as I alluded to earlier, sometimes it means that having a sensor on that vehicle, if there's damage in front of that sensor, means you can't actually repair that exterior component.

And so that's going to drive that cost of repair higher as well.

Now, if we look at total loss, total loss market values prior to 2025 were gradually correcting. We saw obviously the astronomical growth of the used vehicle market during COVID. That was clearly not sustainable.

We were observing that number was gradually declining throughout 2023 and 2024. In the United States, that number flattened out. In 2025, and continued to decline in Canada.

We often see that trends that happen first in the United States, follow in Canada sometimes 6-12 months later. It really depends on the individual metric that we're looking at here.

But in the U.S., we saw those numbers flatten out. In Canada, the number continued to go down in 2025, to the tune of about 5.2%.

So what can we expect in 2026?

I think we're going to see probably the Canadian number flattened out a bit and the U.S. numbers start to grow.

Probably somewhere in the 3.5%, 4% or 5% range because there's a lot of different things that are at play here that can drive that number higher. Not only tariffs. We're hearing J.P. Morgan predicting that new vehicle prices are going to increase by about 7% in 2026.

That would definitely trickle down to the used vehicle market. Also, more favorable financing that's available as well as the fact that we just don't see the same inventory levels of used vehicles that we've seen in the past, not as many vehicles released during COVID. So, we couldn't rely on lease returns to prop up that used vehicle inventory.

A couple different factors at play here, but I don't think that we're going to be looking at declines in 2026. I think if anything, we're going to be looking at levels that are going to be either flat or increasing on both sides of the border.

Now when we look at total loss frequency, we saw increases both in the U.S. and Canada—primarily driven by the increasing cost of repair coupled with the decline in used vehicle values that we saw in 2025 in aggregate.

In the U.S., total loss frequency went from 23% in 2024 to 23.8% in 2025. In Canada, we saw a similar trajectory going from 22.9% in 2024 to 24.5% in 2025.

I would expect that we're going to probably see a level of increase in total loss frequency, even if we start to see vehicle values increase.

Now typically there's an inverse relationship there, but as we continue to see the cost of repair increase, which I think it will, resulting from again having to deal with this technology, having to manage and bring these vehicles back to pre-loss condition from a technological standpoint, as well as the impact of parts inflation. Then that is going to push those borderline vehicles closer to that total loss threshold. Especially if salvage values remain elevated, which I think they will in 2026.

So what I think we can expect, bottom line in 2026, is a little bit of a year of uncertainty because a lot is going to depend on the strategy that the OEMs take. The strategy that's put into place to deal with tariff costs and how they're going to pass those costs along to the consumer, both in terms of parts as well as whole vehicles, and when they go about doing so.

So that is really going to be the big question mark here. That is going to drive a lot of the results that we see in the collision repair industry in 2026, more so than in recent memory.

In the year ahead, we're going to see a greater focus on properly managing the technology on these vehicles. Properly managing how these vehicles are recalibrated, how we ensure that vehicles are being repaired safely, being repaired properly as well as appropriately managing expenses.

So there's going to be a focus on accuracy and a focus on safety as well throughout the year. It is going to become increasingly difficult as these vehicles become more complex.

The growth of complexity in the automotive industry is not slowing down. We can be assured of that.

That is something that we're all going to have to continue to contend with, regardless of the kind of economic situation we find ourselves in.

That's all for this episode. Thank you so much for joining us today.

We're wishing you all a wonderful and prosperous 2026. It's going to be exciting to see how this all plays out.

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