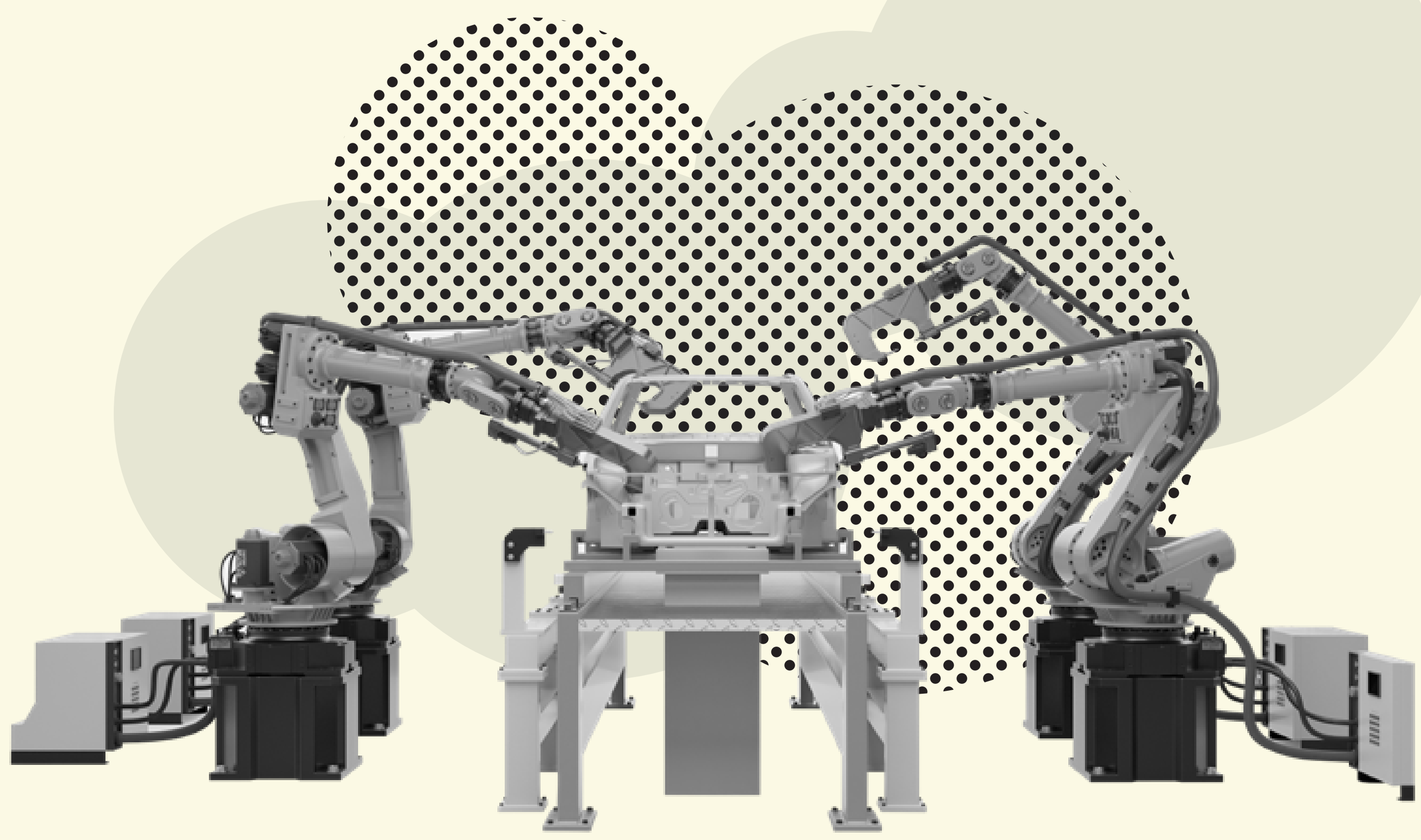
# The Auto Industry: North America's most integrated value chain



## The auto industry drives trade in the region

The auto industry remains North America's flagship co-production chain and has historically accounted for around one-fifth of USMCA trade.

## North America's auto industry by numbers

**Production:** North America produced more than **15.5 million motor vehicles in 2025, 14.3% below its 2016 peak**.

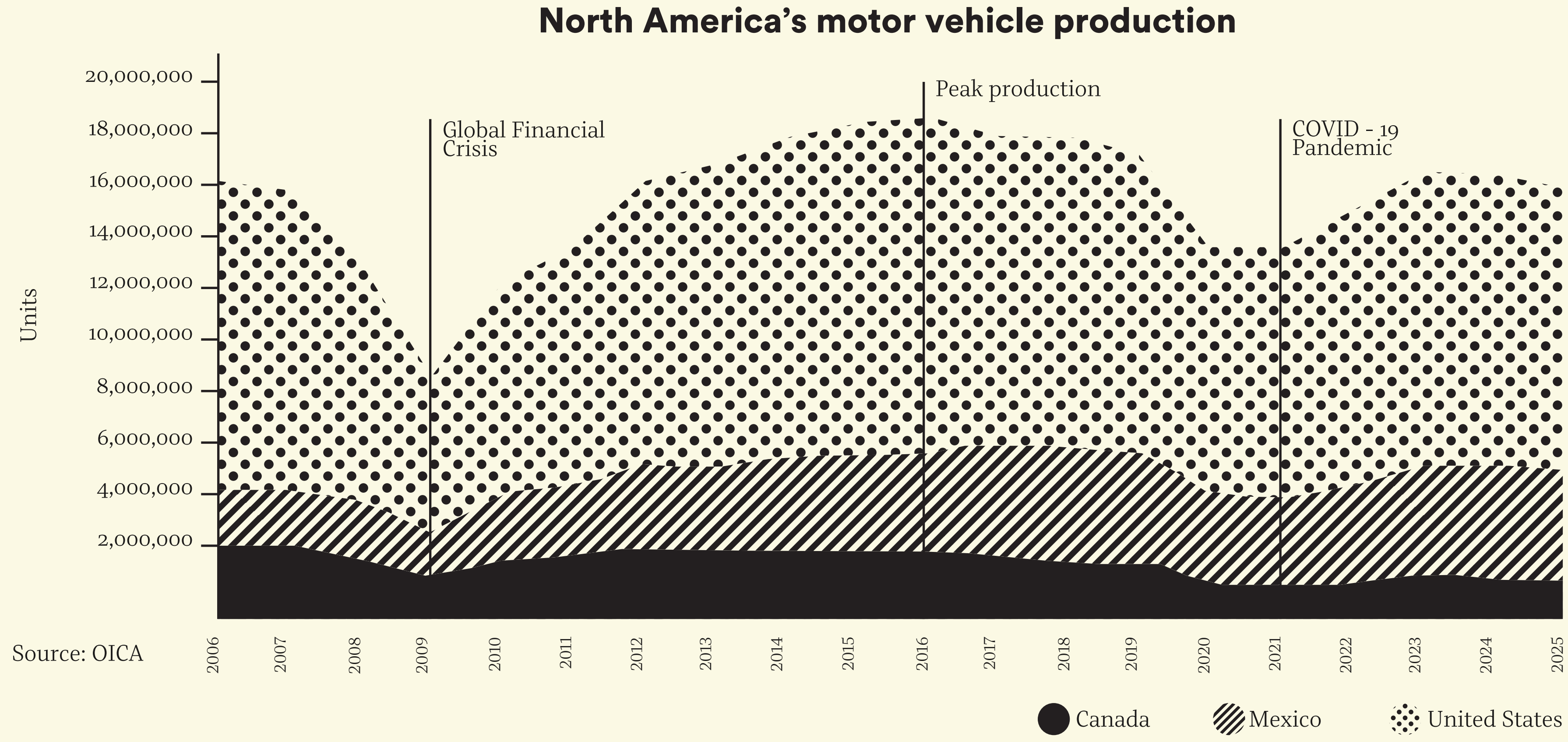
The United States accounts for nearly two-thirds of North American vehicle production, Mexico for one-quarter, and Canada for the rest (OICA).

## North America is an automotive powerhouse

If the U.S. Auto Industry were a country, its economic contribution would rank #17 on the list of largest countries by GDP (Alliance for Automotive Innovation, 2023).

Mexico was the seventh-largest vehicle manufacturer and Canada the 11th (USITC, 2024).

### North America's motor vehicle production




Source: OICA

## Jobs:

**United States: 10.9 million jobs supported by the automotive industry, with roughly 975,000 direct jobs** in motor vehicle, body/trailer, and parts manufacturing in 2025. (AAI,FRED).

- One in 20 jobs across the country is supported by the auto industry, including direct manufacturing and upstream suppliers, as well as downstream distribution, retail, maintenance, and aftermarket services (Data Driven).

**Mexico: 1 million direct jobs,** and impacts **20 million jobs across multiple sectors** (2025,AMIA).

**Canada: 500,000 jobs supported by the automotive industry** (2025, StatCan).

## USMCA 2026 review: rules of origin assumptions and implications

This section is based on the Finamex report Two Risk Pillars: A Comprehensive View on the USMCA 2026 Review (May 2026).

Industrial policy assumes that stricter rules of origin lead to more North American manufacturing—but this relationship may have limits.

**More stringent rules of origin can increase regional content—but only up to a point.**

- Head, Mayer, and Melitz (2024) proved empirically that **excessively strict requirements may encourage firms to pay tariffs rather than comply.**

- The relationship between content requirements and regional content follows a Laffer curve: beyond a threshold, additional stringency becomes counterproductive.

- Excessive tightening can reduce, rather than strengthen, North American integration.

The key challenge for the 2026 USMCA review is to strengthen North American content without crossing the threshold where stricter rules begin to discourage regional production and integration.

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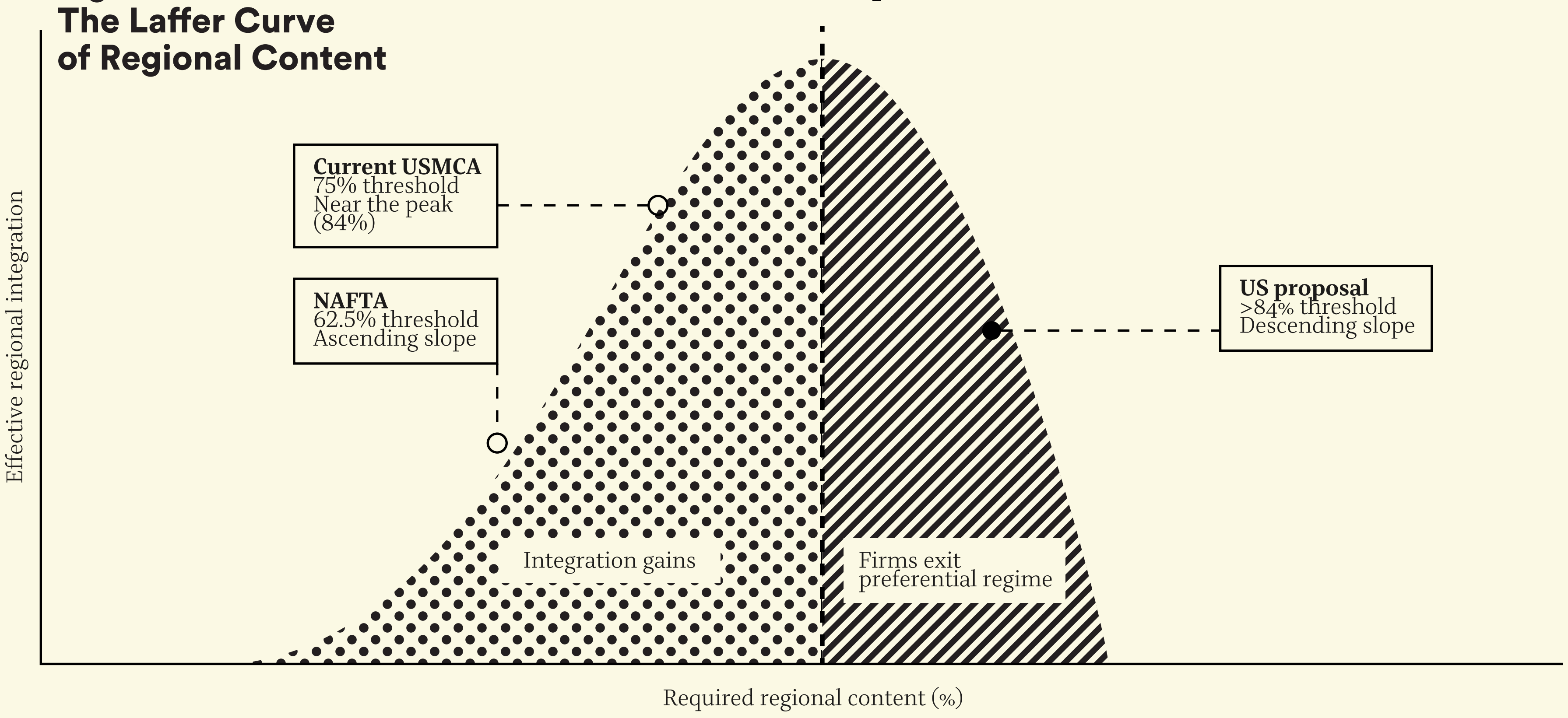
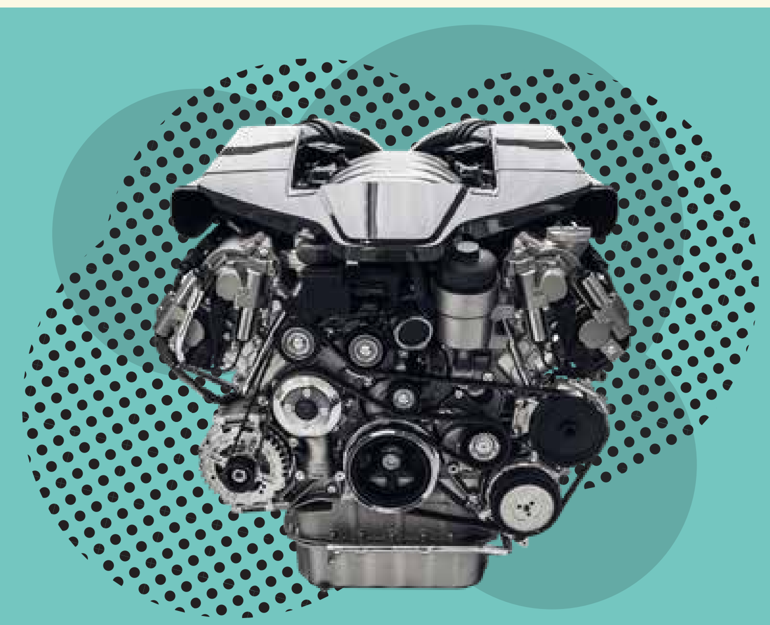
**Figure 3.**
**The Laffer Curve of Regional Content**




| Framework | Required threshold | Position on curve | Real effect |
|---|---|---|---|
| NAFTA | 62.5% | Ascending slope | +2pp of real integration per +20pp of stringency |
| Current USMCA | 75% | Near the peak (84%) | Costly but viable compliance. Narrow negotiating margin. |
| Aggressive U.S. proposal | >84% | Descending slope | More stringency = less real integration. Firms pay tariffs increasing the consumer prices = less affordability, since 88% of the affordable cars in the US are built by foreign companies (Autos Drive America, 2026) |

**Source:** Finamex Economic Research based on estimates by Head, Mayer, and Melitz (2024).



## Shocks or growth in Mexico's industrial sector are quickly mirrored in U.S. manufacturing activity and vice versa

Manufacturing jobs in both countries are closely linked through shared supply chains, extensive cross-border trade in components, and synchronized demand for machinery, vehicles, electronics, and other manufactured goods.

## The auto industry drives North America's co-production model

The region's automotive competitiveness stems from a highly integrated trilateral production platform.

- A car's components, in some cases, cross the borders as many as **eight times** before becoming a finished vehicle (CRS).
- Close to **half of the value in vehicles built in Canada originates in the United States, and more than one-third of the content in vehicles assembled in Mexico is U.S.-made** (USTR).
- Mexico is the United States' **leading automotive supplier,** providing 32.3% of transportation equipment imports in 2025; Canada follows with 14%.

## Trade disruptions don't stay in one country; they ripple across the region

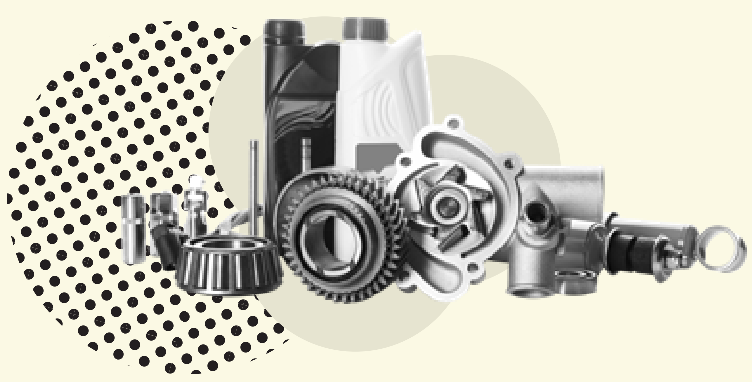
Section 232 tariffs have weighed down on production and employment across:

- **Tariffs tax the production platform** (OICA).
    - Motor vehicle production in North America **declined 3%** in 2025 compared with 2024.
    - Canada recorded the steepest decline, with **vehicle production down 8%.**
    - **Mexico and the United States** each posted a **3% decline** in vehicle production.
- In the **U.S., motor vehicles and parts manufacturing employment** declined by **35.2 thousand jobs in 2025.**
- In **Mexico**, employment in **transportation equipment manufacturing fell 6.3%** in 2025. Less jobs in Mexico, means less prosperity in the neighbourhood.

## What opportunities does the region have for strengthening the co-production model?

- Mexico is no longer just an assembly location; it is a strategic contributor to design, innovation, and high-value manufacturing.
- Harness **Mexico's structural strengths in auto-parts production** (electric components, seating, suspension, engines, and transmissions) to advance toward higher-value capabilities while maintaining its specialization.

By leveraging the USMCA to strengthen North America, the region can scale production, compete globally, and strengthen long-term industrial resilience.



**SOURCE:** Finamex Economic Research based on estimates by Head, Mayer, and Melitz (2024); AMIA; CRS; USTR; OICA; StatCan and USITC.

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