# Tesla reports significant profit decline amid sales drop and rising challenges



Tesla has reported its poorest quarterly financial performance in four years, influenced by a combination of declining vehicle sales, shrinking profit margins, and emerging trade challenges. The electric vehicle (EV) manufacturer disclosed a 9% drop in sales and a 71% plunge in income, with automotive revenues declining by 20%. Despite these figures, Tesla’s share price rallied by 9% over recent days, fuelled largely by CEO Elon Musk's announcement that he plans to reduce his involvement with the Department of Government Engagement (DOGE) role and refocus more attention on Tesla, balancing this alongside his other commitments at SpaceX, xAI, and Neuralink.

However, Musk’s return to a more hands-on approach at Tesla might not resolve the firm’s pressing issues. The company is facing intensifying competition within the EV market, a worn product line awaiting the launch of major new models, and potential financial impacts arising from tariffs imposed by former President Donald Trump's administration. Musk downplayed these concerns during the April 22 earnings call, stating, “We’re not on the ragged edge of death, not even close. There are some challenges, and I expect that … there will probably be some unexpected bumps this year.”

Tesla’s current earnings are heavily reliant on regulatory credits, accounting for its entire $409 million profit this quarter. These credits, which are purchased by other automakers needing to meet environmental regulations, contributed $595 million in revenue; without this, Tesla would have posted a net loss.

Industry experts have highlighted that Tesla’s lack of fresh vehicle models is a critical hurdle. The Model Y and Model 3, which have been its best-sellers, were first released in 2020 and 2017 respectively, and the anticipated Cybertruck has not met expectations, being labelled as one of the most significant flops in automotive history. Instead of launching completely redesigned vehicles, Tesla is preparing refreshed and slightly cheaper versions of the existing models, featuring minor aesthetic adjustments such as a new light bar and aerodynamic wheels for the 2025 Model Y. Automotive analyst Glenn Mercer described this approach as problematic, saying, “Just leaving these models in the market forever, with no significant sheet metal changes, means they are–to overstate things–zombies.”

Tesla’s position in the EV market has also weakened due to rising competition, especially from fast-growing Chinese manufacturers like BYD and established automakers such as General Motors, Hyundai, Kia, Honda, and Rivian. Tesla’s share of global EV sales has dropped to 43% in the first quarter from 75% three years prior.

Adding to Tesla’s challenges are the effects of tariffs introduced during Trump’s tenure, particularly a 145% tariff on imported Chinese battery cells, crucial for Tesla’s rapidly growing battery and energy storage business. This division, which includes the sale of battery packs to utilities and homeowners, saw a 67% revenue increase to $2.73 billion in the first quarter and represents one of the company’s few bright spots. Tesla currently imports lithium-iron-phosphate (LFP) battery cells from China for this purpose but intended to begin domestic production in Nevada. This plan has stalled due to tariffs and associated equipment limitations, with Tesla CFO Vaibhav Taneja explaining, “We’re in the process of commissioning equipment for the local manufacturing of LFP battery cells in the U.S. However, the equipment which we have can only service a fraction of our total installed capacity of late.”

The tariffs are expected to inflate costs substantially, particularly affecting utility customers reluctant to pay higher prices for energy storage solutions. An anonymous source familiar with Tesla’s battery operations indicated that the market for these batteries could "just disappear as the price goes up."

Tesla’s brand image has also been negatively influenced by Musk’s highly publicised political involvements and controversial social media presence. Polling from various institutions reveals declining public favourability toward Musk and Tesla, with the Marquette University Law School finding 60% of respondents held an unfavourable view of Musk and a YouGov/Yahoo News survey stating that 67% of Americans would not consider buying or leasing a Tesla, citing Musk’s persona as a key factor. Sue Benson, CEO of The Behaviours Agency in the UK, commented to Forbes that, “It’s too late to separate man and brand. And in the meantime, it’s lost its EV advantage.”

Musk has since pivoted Tesla’s future vision towards ambitious yet uncertain innovations such as robotaxis and autonomous humanoid robots, stating, “The future of the company is fundamentally based on large-scale autonomous cars and large-scale, large volume, vast numbers of autonomous humanoid robots.” However, Tesla has yet to demonstrate leadership in these areas compared to companies like Waymo for robotaxis and Boston Dynamics for robotics.

Investment analyst Ross Gerber expressed scepticism over Musk’s strategy and product focus, suggesting the Cybercab concept would have been better positioned as an affordable $25,000 EV with traditional controls, rather than as a futuristic robotaxi without a steering wheel. He criticised the decision to shrink or simplify existing models rather than introduce genuinely new designs, describing such moves as “kicking themselves in the kneecap.”

As Tesla navigates these multiple challenges, questions remain about the company's trajectory amid growing competition, evolving market dynamics, and the burden of geopolitical and tariff-related obstacles. The forthcoming months will be pivotal in determining Tesla’s ability to sustain its leadership in the EV and energy storage sectors.

Source: [Noah Wire Services](https://www.noahwire.com)

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