

COVID-19 Impact on the Automotive Industry

Supply chain and manufacturing disruptions along with the declining demand from end users has impacted the earnings of the automakers. The industry is witnessing an almost stalled demand with forecasts of close to 15-20% decline in unit sales in 2020 as compared to 2019

IMPACT ON THE SECTOR



SUPPLY CHAIN DISRUPTIONS

OEMs rely heavily on just-in-time production and the outbreak of Covid 19 backed by the resultant lockdowns have disrupted the automotive supply chain. Especially in China, where almost two-thirds of auto production was directly affected by the country's industrial shutdown, which had a large impact on their suppliers as well. The shortage of Chinese-made parts has led to a heavy impact on global production



SHUTDOWN OF MANUFACTURING

Although the situation in China is starting to normalize, most of the US and European car manufacturing is still looming in uncertainty on when will the normal production resume. At the same time, OEMs are starting to shift engineering, assembly and even procurement capacities to produce and source medical equipment. Regardless of the reasons – safety/legislative – the decline in demand along with the lack of parts will lead to job losses and a drop in production



FALLING DEMAND AND DROP IN SALES

Enforced measures to contain the pandemic, such as lockdowns, closing factories, offices, dealerships and the resulting dismissals of short-time workers, as well as the fear of a recession are likely to lead to a decrease in sales numbers



LIQUIDITY

Liquidity issues loom as a threat and could force the OEMs to negotiate higher credit lines. Lack of additional funding could result in many players going out of business

OEM SPEAK



The company expects its operating profit to fall to € 0.9 Bn, which would be an 81% drop from € 4.84 Bn last year in Q1. After five weeks of shutdown Volkswagen has now restarted production in two of its plants



Ford expects a net loss of US\$ 2 Bn for the first quarter as the coronavirus pandemic continues to suppress the sales and production activities



After a strong start to 2020, Honda reported a 48% decline in March sales due to impact of COVID-19. The company also reported that hundreds of Honda and Acura dealers were closed in the 2nd half of March in compliance with mandates imposed on businesses by state and local governments.



GM had shut its manufacturing operations in North America due to market conditions since mid March. The company is now slowly looking at planning to restart their operations although no certain date has been finalized yet

COMPONENT SUPPLIER SPEAK



The company withdrew its 2020 outlook as described in its annual report 2019 given the uncertain conditions and difficulty in predicting consequence in future production. Over 40% of their production locations worldwide have temporarily ceased activities



Due to the emergency situation Brembo extended the temporary suspension of its Italian operations in Stezzano, Curno, Mapello and Sellero until further notice



The company forecasts its revenues to decline by 8%-10% this year, with the adjusted EBITDA margin dropping to 6%-8% from 9.2% in 2019. They also are upbeat that they are likely to outperform market growth in 2020 thanks to its strong order intake in recent years.

A trend to reduce dependence on one country will gain significance. OEMs will also make use of this learning and start implementing dual sourcing strategies along with increased importance to flexible production methods to aid shift of production from one location to other on need basis

IMPACT ON KEY MARKETS

- The U.S. domestic vehicle sales volumes are forecasted to witness a fall ~26.5% percent in 2020
- The weak sales projections are owing to low-consumer spending backed by economic slowdown and the fear of lost paychecks
- Major OEMs such as GM, Ford, Toyota, Fiat Chrysler Automobiles, Volkswagen, Honda, and Subaru have been on an extended shutdown. This has led to a ripple effect on the component suppliers
- OEMs are promoting online sales to try and maintain continuity of business

- EU production losses due to factory shutdowns accounted for ~2 mn motor vehicles (as of 20th April) including passenger cars, trucks, vans, buses and coaches
- In March 2020, the EU new passenger car registrations recorded a significant drop of -55.1% as a result of the COVID-19 outbreak
- Germany, Italy, and the UK in Europe being home to many OEMs and automotive suppliers makes it the worst hit region



- As per the Society of India Automobile Manufacturers (SIAM) the sales of passenger cars in March 2020 declined by 50% (143,014 units) as compared to the previous year. The production is likely to witness a steeper decline with no automotive manufacturing or commercial activities in April owing to the nationwide lockdown
- It is anticipated that, post Covid-19 crisis, around 8-10% auto dealers in India will face closure owing to low demand and OEMs promoting online sales
- Global OEMs and component manufacturers focus on re-planning their geographical location to de-risk their supply chain is posing opportunity for India's automotive sector

- As per recent forecast by China's Association of Automobile Manufacturers, the country is expected to witness a 5-10% decline in automobile sales in 2020
- While the sector is all poised to get back on its feet, the shortages of automotive components from suppliers based in Europe and the US is further prolonging the recovery

VARIOUS GOVERNMENT MEASURES

South Korea



- South Korean government has extended logistical and financial support to the country's auto sector. Support measures to include speeding up customs clearance, arranging freight transportation and provide liquidity support

Europe



- The European Central Bank (ECB), the European Investment Bank (EIB) and the European Commission (EC) have taken steps to help both the companies in the automotive industry and their employees.
- The European Central Bank has adopted a monetary policy package, and a € 750 Bn Pandemic Emergency Purchase Programme (PEPP).
- The European Investment Bank will mobilise € 40 Bn financing to alleviate liquidity and working capital constraints

China



- The Chinese government is offering cash subsidies to car buyers with an intent to revive the sales impacted by the pandemic. Government of many cities and provinces are encouraging buyers with cash subsidies as much as US\$ 1,400 per vehicle.
- The government here continues to focus on other sectors such as infrastructure, SMEs, and the rest of the industrial sectors.

Post Covid, while the industry is expected to move in a direction similar to which it was heading before the outbreak, there is a definite uncertainty when it comes to the timeframes. Experts anticipate a minimum of 2 years for the sector to recover globally

POST COVID MARKET OUTLOOK



Uneven Market Growth

- The post covid recovery for the sector is expected to be largely uneven across the various regions. China will have the fastest recovery with growing indications of their return to normalcy. Europe is anticipated to recover slower if the historic trends of recovery are considered from the 2008
- financial crisis



Product development

- Product development and new model launches will be delayed owing to the financial challenges and supply chain disruptions. The spend on R&D is also likely to be reduced as OEMs would want to conserve capital.



Regulatory Exceptions

- One of the probable regulatory change could be easing of the emission norms to cope up with declining sales. Automakers have started lobbying European Commission to delay the introduction of stricter CO2 norms



Sourcing strategies

- The pandemic has resulted in supply disruptions and has exposed the over dependency on China as a manufacturing base. Manufacturers are expected to strictly review their supplier/sourcing strategy rely more on indigenous suppliers



Slower adoption of the megatrends

- The speed of adopting the four key megatrends for the sector (connected, autonomous, shared and electric driving) is anticipated to be slow owing to the slowdown

KEY FUNCTIONAL CHANGES TO LOOK OUT FOR



01

Enhancement of automation, digitalization and artificial intelligence (AI) in the automobile sector to improve resilience to future disruptions

Improvements to their online sales models by OEMs and dealers to mitigate the sales slump

02



03

Adoption of agile and lean manufacturing by automobile manufacturers to ensure lower manufacturing costs and shorter time to reach the market

Note: The level of impact is quoted as per the current scenario and expected to change in future.

For a more detailed assessment of the impact of COVID-19 on the Automotive industry please reach out to marketing@datamaticsbpm.com.