

Automotive Market



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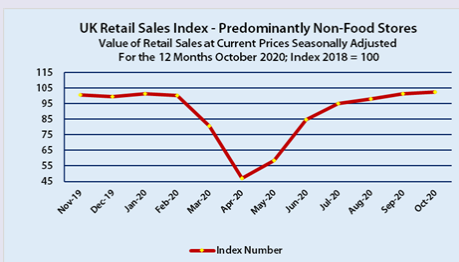


Figure 1: UK retail sales index – predominantly non-food stores



Global Auto Sales

According to a September 2020 revised forecast from S&P Global, global auto sales are expected to decline by about 20% this year and two years from now sales will still be 6% below 2019 volumes.

Global new vehicle sales fell 25 to 30% in the first half of 2020, including 15% in China, 24% in the US and 40% in Europe, according to a report in the late summer from Fitch Ratings.

S&P Global data shows worldwide light vehicle sales were down by one-quarter (24.6%) in the first half of 2020. Signs of improvement were seen in China during the second quarter with some stabilisation in Europe and North America in July and August. South America, meanwhile, continues to experience steep light vehicle sales declines.

“We continue to believe that the Chinese market has the potential to resume moderate long-term growth, and project it will be the only region to recover to 2019 volumes by the end of 2022. In Europe and North America, sales showed signs of stabilising in July and August but we don't expect these markets to fully recover their steep declines within the next two years,” explained S&P Global.



UK New Vehicle Sales

According to data from the Society of Motor Manufacturers and Traders (“SMMT”), car sales in the UK have fallen by 33.2% so far this year, compared with the same period last year. The UK new car market fell by 1.6% in October and reached a nine-year low in terms of number of cars registered. In September car sales dropped by 4.4% compared with a year earlier.

Sales of battery electric vehicles and plug-in hybrid cars, however, accounted for more than one in 10 new car registrations in the UK, as demand for battery electric vehicles grew by 184% compared with a year earlier.



Aluminium Alloy Wheel Market

A new report from Technavio projects the global aluminium alloy wheel market to grow by \$0.52 billion, progressing at a CAGR of about 1% during the forecast period from 2020 to 2024, with 8.8% growth for 2020. The firm expects about 69% of this growth to be contributed by the APAC region. The growing demand for lightweight vehicles is one of the major factors propelling market growth.



UK Automotive Aftermarket Sales

Mintel reported in December 2020 that the UK automotive aftermarket has performed relatively well during 2020 considering the impact of the COVID-19 pandemic on the wider economy and automotive market. Despite some decrease in demand as a result of reduced mileage and increasing numbers of Britons working from home, revenues are forecast to be down only 4.4% against 2019 at £5.61 billion in 2020. Much of the decline will come from slowing demand for replacement tyres. Mintel forecasts revenues will surpass their 2019 level by 2022.

Neil Mason, a leading analyst for Mintel in the Automotive sector explained, “Despite the significant impact of COVID-19 on car sales, replacement parts largely weathered the difficulties posed by the pandemic. The continuing need for cars to remain roadworthy helped insulate the sector from a major

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...Barclaycard said UK consumer spending grew by 0.2% year-on-year in August, the first rise since February this year. This was followed by growth of 2.0% year-on-year in September delivering the biggest increase since February 2020.

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decline in sales. Going forward, the market will continue to face challenges, notably from the future use of cars and confidence towards expenditure”.

-UK Economic Climate-



UK Retail Sales

According to latest figures from the ONS, in October 2020, retail sales volumes increased by 1.2% when compared with September; this is the sixth consecutive month of growth, resulting in an increase of 7.9% when compared with February's pre-pandemic level.

The year-on-year growth rate in the volume of retail sales saw a strong increase of 5.8%. In the three months to October, value sales increased by 9.2% and volume sales by 8.9% when compared with the previous three months.

The proportion of online sales was at 28.5%, compared with 20.1% reported in February, despite small monthly declines across most of the retail sector.

-Economic Impact of Coronavirus-

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies.

Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy.

Manufacturing

In China, where the coronavirus first appeared, industrial production, sales and investment all fell in the several months of the year, compared with the same period in 2019; however, China's industrial sector has seen an impressive turnaround from the pandemic paralysis seen earlier this year, helped by resilient exports. China makes up a third of manufacturing globally and is the world's largest exporter of goods.

Impact on the Automotive Industry

S&P Global expects global light vehicles sales will fall 20% this year compared with 2019 following sales and production disruption due to the COVID-19 pandemic. The firm projects global vehicle sales to see 7%-9% growth both in 2021 and 2022; however, under this scenario, light vehicle sales two years from now will still be 6% below 2019 volumes.

The report explained, “Our forecast is more conservative than general market standards. However, we deem this scenario consistent with the pandemic-related dramatic squeeze on potential car buyers' finances across the globe, combined with pressure on affordability stemming from higher prices of new hybrid and electric vehicles that carmakers are trying to promote in regions like Europe and China.”

As a result of the pandemic, many auto manufacturing plants and their suppliers are anticipated to operate at suboptimal capacity and at less efficient levels for the remainder of 2020. Additionally, a large proportion of rated issuers are

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expected to end 2020 with a higher debt load than at the start of the year. S&P Global expects companies' profitability and cash flow adequacy metrics to be weaker in 2021 than in 2019.

As many of the world's biggest economies suffer secondary virus outbreaks, GlobalData's October 2020 forecast predicts full recovery might not be achieved until 2023.

Despite the negative impact on the automotive industry at large, there is a potential bright spot for electric vehicle manufacturers. GlobalData analyst Calum MacRae explained, "From next year and beyond much will depend on the path of major world economies when the recession threatens to become more broad-based with demand impacted by higher levels of unemployment and some permanent scarring from the pandemic. That could put pressure on governments to extend special measures and support for the sector - for example with continued incentives to buy electric cars in Europe."

Effect on Global Demand

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This will lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

Pace of Recovery Losing Momentum

According to the latest OECD Interim Economic Outlook report, after an unprecedented collapse in the first half of the year, economic output recovered swiftly following the easing of containment measures and the initial re-opening of businesses, but the pace of recovery has lost some momentum more recently. New restrictions being imposed in some countries to tackle the resurgence of the virus are likely to have slowed growth, the report says

Uncertainty remains high and the strength of the recovery varies markedly between countries and between business sectors. Prospects for inclusive, resilient and sustainable economic growth will depend on a range of factors including the likelihood of new outbreaks of the virus, how well individuals observe health measures and restrictions, consumer and business confidence and the extent to which government support to maintain jobs and help businesses succeeds in boosting demand.

Global Economic Forecast

The OECD Interim Economic Outlook projects global GDP to fall by 4.5% this year, before growing by 5% in 2021. The forecasts are less negative than those in OECD's June Economic Outlook, due primarily to better -than-expected outcomes for China and the United States in the first half of this year and a response by governments on a massive scale. However, output in many countries at the end of 2021 will still be below the levels at the end of 2019, and well below what was projected prior to the pandemic.

If the threat from COVID-19 fades more quickly than expected, improved business and consumer confidence could boost global activity sharply in 2021. But a stronger resurgence of the virus, or more stringent lockdowns could cut two to three percentage points from global growth in 2021, with even higher unemployment and a prolonged period of weak investment.

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The report warns that many businesses in the service sectors most affected by shutdowns, such as transport, entertainment and leisure, could become insolvent if demand does not recover, triggering large-scale job losses. Rising unemployment is also likely to worsen the risk of poverty and deprivation for millions of informal workers, particularly in emerging-market economies.

The rapid reaction of policymakers in many countries to buffer the initial blow to incomes and jobs prevented an even larger drop in output. The Interim Outlook says it is essential for governments not to repeat mistakes of past recessions but to continue to provide fiscal, financial and other policy support at the current stage of the recovery and for 2021. Such measures should be flexible enough to adapt to changing conditions and become more targeted.

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