

How will the automotive industry recover from Covid-19?

How will the global auto industry recover from Covid-19? Already under pressure before the crisis, the future looks bleak. Major structural changes within the industry could come which will affect everything from production, demand for electric vehicles and supply chains. Download our full report [here](#).



Workers wear protective masks at a Volkswagen factor in Portugal

An industry already facing tough times

The global automotive industry was already in trouble before Covid-19 swept across the world. The trade war, environmental concerns and the search for future motoring among any other things were already weighing on sales. China, where the outbreak of Covid-19 began at the end of December, was the first country to go into lockdown, restricting travel, cancelling plans for Chinese New Year and shutting factories. While light vehicle sales had fallen by 18.6% YoY in January, February saw the biggest fall ever recorded in the time series, with sales contracting by 79.1%. Nevertheless, April sales recovered with light vehicle sales crossing the 2 million vehicle mark compared with sales of only 1.4 vehicles the month before, increasing by 4.4% YoY thanks to an uptick in commercial vehicles.

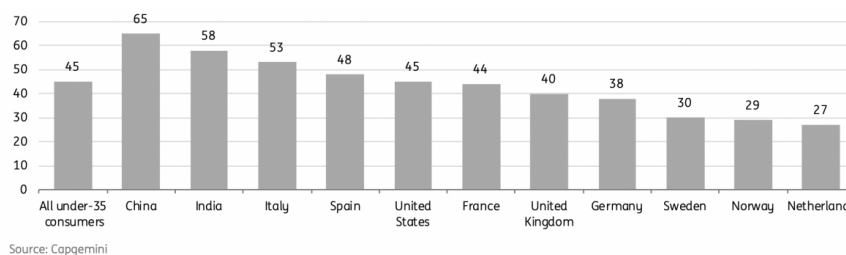
In Europe, demand for vehicles fell sharply in March with the EU light vehicle market contracting by

44% YoY as lockdown measures, closed dealerships and consumer uncertainty caused a drag, while in the US new passenger car and light truck sales plummeted by 47.9% YoY in April. These monthly declines resemble the industry downturn in 2008 and 2009 or are even worse. However, back then, production and public life did not largely come to a halt. So how will the automotive industry get out of this unprecedented crisis and will there be major structural changes?

1 Could there be a 'renaissance' of individual transportation?

Our full report, [Covid-19's long term effects on the automotive industry](#), has all the details on each of these sections. First we ask whether Covid-19 could trigger a (temporary) reversal of trends such as car sharing due to social distancing? Not only have car sales already seen a large drop, demand for urban mobility concepts such as car sharing, ride-hailing or electric scooters has also been impacted. So while the cyclical slump does not really come as a surprise, the question is whether Covid-19 could lead to structural changes in shared transportation choices. Will there be a return of the car for personal use or will an increase in working from home post coronavirus reduce commuting of any kind, including with your own vehicle?

Percentage of potential car buyers under 35 years of age who are considering buying a car in 2020

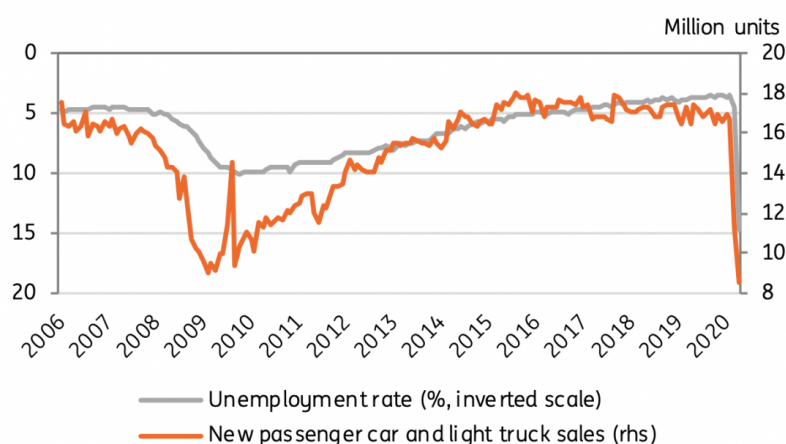


2 The cyclical impact from higher unemployment and reduced income on the automotive industry

Due to lockdown measures in response to Covid-19, unemployment rates have increased exponentially worldwide. The effects of the crisis on the labour market are particularly evident in the US, where the number of jobless claims filed climbed to more than 35 million people since mid-March, while in Europe, the impact of the crisis can clearly be seen in the short-time work applications.

Higher unemployment clearly weighs on automotive sales. The damage induced by Covid-19 is already worse than that caused by the financial crisis which began in 2008. In March this year, consumer spending in the US dropped by 7.5 percent with the leading contributor to the decrease being spending on motor vehicles and parts. Sales of new passenger and light truck sales plummeted by 34 percent in March and a further 48 percent in April, while the unemployment rate shot up to 14.7 percent, the highest level since 1940. A similar picture is expected in Europe.

US: Unemployment rate and car sales, 2006-2020



Source: Refinitiv Datastream, ING

3 Will demand for electric vehicles fall due to low oil price environment?

Oil prices have tumbled following ongoing supply and falling demand as a result of Covid-19. With continued low energy prices, the question arises whether electric vehicles (EVs) could suffer even more in what will be a sharp drop in global light vehicle car sales. While sales of EVs will suffer, the trend remains.

Last year, the share of EVs in total car sales across the EU amounted to 2% of total new car sales (from 1% in 2018). In Norway, the share of new sales is highest at 41% and the Netherlands follows with a share of 14%. Eastern European countries lag behind. The transition to EVs has begun to gain traction and various European countries have shown their ambition by mentioning future 100% electric sales targets.

We were expecting European new car sales to move in the direction of 100% electric by 2035. The price of oil is a cost factor for drivers and might influence choices when ordering a new vehicle. However, we do not believe there will be a deviation from the current electrification path, as we only expect it to experience a temporary slowdown. Despite low oil prices, we see three main reasons why the trend will not be affected.

4 Will supply chains be adjusted due to Covid-19?

Supply chains in the automotive industry are clustered in regional hubs, with the lion's share of value added (ie, the production of vehicles from component parts) happening close to market. Even though inter-regional linkages contribute a smaller amount of value added than those within regions, their disruption has been enough to cause major issues across the industry. The outages in Hubei province forced some factories elsewhere in the world to stop work weeks before those in other countries as China began lockdown measures to stop the community spread of the virus.

The complexity of automotive supply chains makes it difficult as well as costly to make them more resilient to shocks. It is difficult to define how to mitigate the risks posed by future shocks that could happen within a country, region or, as with Covid-19, globally. With upwards of 10,000

suppliers in a vehicle's value chain, organised across several tiers, there are further challenges in incentivising and enforcing de-risking comprehensively enough to cover all components.

Suppliers' margins were being squeezed during the downturn in global economic activity before Covid-19

Suppliers' margins were being squeezed during the downturn in global economic activity before Covid-19, making the higher costs of increasing resilience unaffordable without raising prices. There is considerable work and expense involved in finding and retaining suppliers, that need to be able to produce to detailed specifications and meet quality and safety standards. Holding larger inventories is another way of increasing resilience by helping production to continue amid disruptions upstream in the supply chain, but involves higher storage and working capital costs. Read more about this in our main report [here](#).

5 The impact of Covid-19 on OEMs and auto part suppliers in a period of transformation?

With production stoppages, lockdowns and the sharp rise in unemployment, both car producers are burning cash supply and demand for Original Equipment Manufacturers and auto part suppliers has been heavily disrupted. In this environment, car producers are burning significant amounts of cash, as fixed costs and working capital need to be financed. Management teams have taken measures to preserve cash, including cutting costs and delaying non-essential Capex and R&D. Furthermore, car producers have been negotiating new credit facilities to shore up liquidity during these testing times.

Download our main report

The above is just a short summary of the main points in our major new report on the Automotive Industry and the effects Covid-19 are having on its full supply chain. Click [here](#) to download the complete analysis.

Author

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s),

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.