Global Auto Sales Will Stay In The Slow Lane For At Least The Next Two Years

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PRIMARY CREDIT ANALYST

Vittoria Ferraris
Milan
(39) 02-72111-207
vittoria.ferraris
@spglobal.com

SECONDARY CONTACTS

Nishit K Madlani
New York
(1) 212-438-4070
nishit.madlani
@spglobal.com

Katsuyuki Nakai
Tokyo
(81) 3-4550-8748
katsuyuki.nakai
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

Key Takeaways

- We expect global light vehicle sales will fall by 2%-3% this year and foresee virtually no growth over 2020-2021.
- Worsening global economic conditions, the trade war between the U.S. and China, and the high cost of innovation for carmakers, will continue to dampen sales.
- We now expect sales in China to decline by 7%-9% this year and rise only moderately in 2020 and 2021.

Global light vehicles sales fell by 6.4% in the year to June 30, 2019. Sales declined in all major markets with the exception of Central and Eastern Europe, which saw a slight pick-up of 0.5%. In light of current conditions, global auto manufacturers' hopes for a sharp increase in sales in the second half of 2019 and 2020 now appear to be dashed.

Economic conditions have worsened globally as a result of the ongoing trade war between the U.S. and China, resulting in a downturn in global trade. The risk of a no-deal Brexit and the higher probability of a recession in the U.S. will further dampen consumer confidence and, consequently, prospects for auto sales in the next two years. We also expect auto manufacturers will suffer some margin erosion, particularly in the mass-market segment, as they may struggle to fully pass through the increased cost of connectivity, electrification, and autonomous driving. These rising costs will translate in higher auto prices and damage consumer affordability, additionally deterring car buyers.

On the plus side, persistently low interest rates should support affordability, while a rich pipeline of new models featuring sophisticated upgraded connectivity and electrification options and autonomous solutions will be attractive for the market. However, we do not think this will be sufficient to raise global light vehicles sales next year, following the dip in 2019 sales that we estimate will fall by 2%-3% for the full year (see table 1).

Our base case assumption for global light vehicle sales is for virtually no growth over 2020-2021. We expect all market regions will experience volume weakness, except China, which may see a modest rebound, although not before 2021.

Table 1

S&P Global Ratings' Light Vehicles Sales Forecast

	--Light vehicle sales 2018 (actual)*		2019 H1	2019e	2020e	2019e	2020e	2021e
				--Previous--		--Updated--		
	Million units	Year-on-year % change		--Year-on-year % change--	--Year-on-year % change--	--Year-on-year % change--	--Year-on-year % change--	--Year-on-year % change--
China	27.7	(3)	(12.0)	(3)	3	(7)-(9)	1-2	2-3
U.S.	17.3	0.7	(2.0)	(3)	(2)-(1)	(3)	(1.2)	(1.8)
Europe	20.6	0.1	(3.5)	0	1-2	(2)-0	0	0
World	94.0	(0.5)	(6.4)	(0.5)-0	0-1	(2)-(3)	0-1	0-1

e--Estimate. H1--First half. *Source: LMC Automotive.

European Sales Stagnate

On the European market, including both Western and Eastern Europe, we project stable sales volumes of light vehicles (passenger cars and commercial light vehicles) over 2020-2021. Despite increasing concerns over economic conditions in Germany, which has so far been the only growing market in 2019 (+0.9% in August year-to-date according to LMC), we think it unlikely that there will be further deterioration of manufacturing activity to the same extent observed over recent months.

Brexit remains a source of uncertainty in Europe. Nevertheless, since the U.K. market has already been on a declining trend for the past three years, we are confident of a stabilization at least, absent a no-deal Brexit.

Downside risks to growth remain, but in our view would be associated with a major surge in unemployment throughout Europe that would hurt confidence, which is currently not our base case. We believe the expectation that interest rates will remain low for a long time, with financing conditions remaining favorable, will support the auto sales market in Europe. We also think it likely that fleet managers (which represent one-third of the European market) and private consumers might be delaying their purchases until 2020 in light of the introduction of a new generation of electrified vehicles in both the mass market and premium segments. They may also have waited to take advantage of recent changes in subsidies and taxation, such as in Germany.

Tariffs On Imports Could Hit U.S. Auto Sales

At this stage, we do not envisage any major changes to our light vehicle sales' assumptions for the U.S. market. With increased overall odds of a recession 12 months out, declining used-vehicle prices, and ongoing geopolitical risks, U.S. automakers face a tough road ahead. In our view, trade tensions between the U.S. and China are unlikely to have any meaningful impact on U.S. sales. However, other trade-related risks, including Section 232 tariffs on European and Japanese imports, a potential reemergence of Mexican tariff threats, would have an adverse impact on automotive demand because most of these costs will be passed on to consumers.

Over time, high pricing pressure amid declining year-over-year demand will likely lead to some compression in profit margins for automakers, especially as competition intensifies in the high-volume segments, such as crossover sports utility vehicles (CUVs). Despite marginal growth in the housing market, the current low-gas-price environment, and availability of new products, we expect pickups (the highest profit margin segment within light vehicles) to outsell most other vehicle segments and account for about 13% of total sales, slightly higher than previous years.

Chinese Sales Not Responding To Stimulus

In China, the long-awaited upturn in sales as a result of government stimulus failed to occur in the first half of 2019. Our economists estimate Chinese real GDP will slow from 6.6% in 2018 to 6.2% in 2019. The growth rate will likely stay at that level in 2020 too.

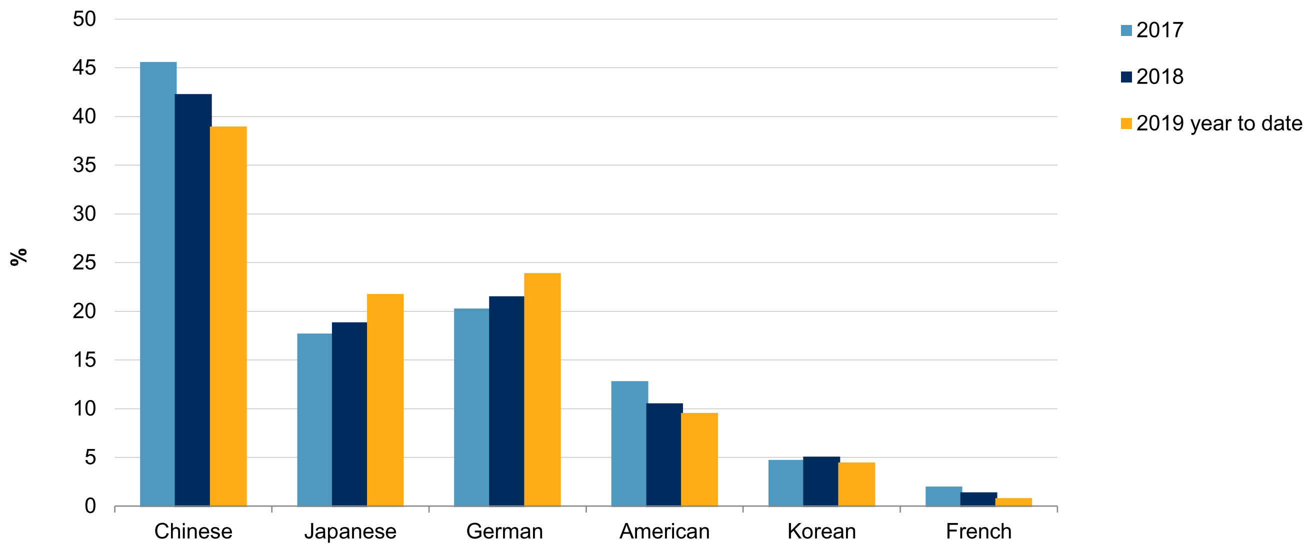
Light vehicle sales were still down 11% in the first eight months of 2019, according to the Chinese Association of Automobile Manufacturers, although the rate of decline is gradually shrinking. Sales of new energy vehicles, including battery electric and plug-in electric hybrid vehicles expanded solidly by 40% in the first seven months of 2019. But their share of total sales remains limited to 5% (up from 4.5% at year-end 2018), and therefore not enough to propel market sales.

This has led us to revise our expectation of a full-year market decline of 7%-9% in 2019, compared to a 3% decline before the summer. Despite timid signs of recovery, we believe that the government stimulus will not trigger a material turnaround in car sales in 2020. For this reason, we only see moderate growth of about 1%-2% next year, slightly accelerating in 2021 to 2%-3%. This growth rate is in line with gradually maturing markets.

While the weakness of the Chinese markets remains a concern for global automotive manufacturers, tougher-than-expected market conditions resulted in a surge of competitive pressure among producers. This is leading to the emergence of winners and losers in the world's largest auto single market: local brands have markedly lost ground to Japanese and German brands over 2019 (see chart 1).

Chart 1

Local Brands Are Losing Ground To Japanese And German Cars
China passenger cars market share by brand



Source: Chinese Association Of Automobile Manufacturers.

Related Research

- German Carmakers Can Still Win The Electrification Race--At A Cost, Sept. 9, 2019
- European Corporate Credit Outlook Midyear 2019, Auto section; July 25, 2019
- North America Corporate Credit Outlook Mid-Year 2019: Pockets Of Risk Emerge, Autos section, July 25, 2019

This report does not constitute a rating action.