Industry Top Trends Update

Autos

Market conditions weaken in Europe

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What's changed?

Input cost inflation is here to stay. Mainly an issue for auto suppliers as passing on excess costs with original equipment manufacturers (OEMs) will delay the recovery of profitability post-pandemic. Less of an issue for OEMs as long as pricing and mix remains strong, as is still the case in first-half 2022.

Consumer confidence is already weakening. Lack of visibility on the Russia-Ukraine conflict, expected rising interest rates, and COVID-19 resurgences have translated into plummeting consumer confidence in Europe and likely dampen the recovery of auto sales in 2023, while large order books support sales in 2022.

Supply side shortages will ease, but not end, in second-half 2022. Expectations of a vigorous rebound in production look increasingly uncertain. We expect the stop-and-go production mood could well continue in the next six months, weakening OEMs' capacity to deliver on record high order books and suppliers' ability to ride on full production recovery.

What to look out for?

The pricing dynamic on new and used cars is not sustainable in Europe. Pricing has allowed OEMs to more than offset low volumes linked to supply shortages and cost inflation. We expect pricing to contribute less to revenue growth.

Higher prices of energy, raw materials, freight, and labor will pressure profitability. We expect weaker margins that will be more manageable for OEMs than suppliers. Margin pressure could be further exacerbated by continued strong sales volumes for electric vehicles (EV), which typically have lower gross margins.

Inventory will increase. To avoid unnecessary stops to production, we expect OEMs and suppliers to build inventories of material and unfinished products, which could weigh on operating cash flow.

What if there's a recession?

Auto suppliers will be less exposed than OEMs to weakening demand at first. Passenger car inventories in Europe have bottomed out, so we believe auto suppliers with substantial operations might be more protected in a mild recession and weakening demand because of the need to rebuild inventories.

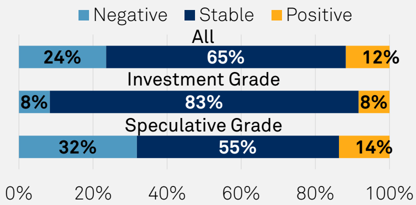
Weak sales in Europe could extend to 2023. After a decline in light vehicles sales estimated in the mid-single-digit range in 2022, a recession could result in stagnating sales of around 16 million units in the region (down from 20 million-21 million in 2019).

EV mix progression could temporarily slow in Europe. The continent could lose momentum in the progression of EV mix (14.0% in 2021, up from 8.5% in 2020) as consumers might delay purchasing EVs, typically a second vehicle for short distance trips.

Latest Related Research

- Battery Suppliers, Automakers To Take A Charge As Prices Rise, May 18, 2022
- Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery, March 22, 2022
- Industry Top Trends 2022: Autos, Jan. 25, 2022

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	12	22	34
Downgrades	0	2	2
Upgrades	2	3	5

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias