Autos

Heading toward a moderate slowdown

This report does not constitute a rating action

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What's changed?

Fears of weakening demand have subsided. This is partly thanks to orders building up in 2022 due to supply chain and logistical disruptions. We estimate that year on year, production will be more than 10% higher in the first half of 2023. We believe that this has helped fulfil orders and replenish inventories.

Prices have peaked. Supply shortages are subsiding and prices for new and used cars are normalizing compared with the record highs of summer 2022. Nevertheless, most original equipment manufacturers (OEMs) remain disciplined about pricing, which will support auto manufacturers' results in 2023.

The appeal of Chinese electric vehicles (EVs) in Europe exceeds expectations, even in brand-loyal markets. Chinese OEMs capitalize on their agile cost structures and reliable supply chains to penetrate markets where consumers can take advantage of subsidies irrespective of where the EVs were produced. Chinese OEMs have no interest in a price war, but if they decide to chase market share, this could make it harder for incumbents to achieve their profitability targets.

What to look out for?

The pace of new orders in the second and third quarters. This will be key in assessing the strength of demand beyond the supply shortage-driven backlog and despite increased prices and tighter funding conditions.

A gradual weakening of demand and pricing. We expect this to materialize more clearly in the second half of this year. We believe that a more prudent stance on production is likely compared to what we saw in the first half. This contrasts with the views of several auto suppliers, who expect a stronger second half. That said, we believe that higher content per car could at least partially offset gradually declining volumes.

Fluctuations in EV sales. EV sales growth remains positive in Europe, but the share of EVs in the sales mix declined to 19% in the year to April 2023 from 22% at end-2022. We put this down to the high price difference between electrified and traditional vehicles and lower subsidies. This makes EVs less affordable, especially at a time of high inflation.

What are the key risks around the baseline?

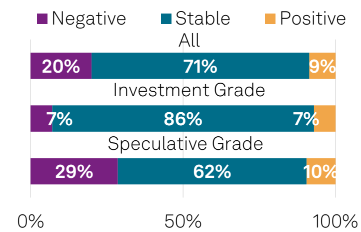
Persistent inflation bodes ill for interest rates. The magnitude of additional interest rate hikes will be a decisive factor in consumers' decisions to purchase new cars.

Heightening competition due to cost-agile entrants. A price war to increase market share could exacerbate the margin dilution we forecast at legacy OEMs due to the increasing penetration of EVs between now and 2025.

Growing geopolitical tensions between the U.S. and Europe on one side, and China on the other. The U.S. and Europe are trying to reduce their dependence on China for raw materials, while China is restricting exports of key metals for use in electronics and semiconductors.

Rating Trends

Outlook Distribution

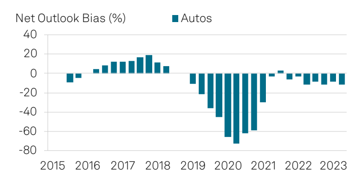


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	14	21	35
Downgrades	0	1	1
Upgrades	2	2	4

Ratings data as of end-June 2023. * Year-to-date. Current ratings only.

Ratings Outlook Net Bias



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