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Global Auto Sales Forecasts: Supply Disruption Slows Recovery

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Key Takeaways

- The intensifying semiconductor shortage has led us to revise downward our projections of a global light vehicle sales recovery to 2%-4% this year and 4%-6% in 2022.
- We currently don't expect the supply-chain disruptions will affect ratings on global auto manufacturers, but there could be a credit impact for auto suppliers, particularly those at the lower end of the rating scale.
- Despite a slower sales recovery overall, we project electrification will accelerate, with electric vehicles making up 7%-10% of the global light vehicle fleet in 2021 and to 15%-20% in 2025.

PRIMARY CREDIT ANALYST

Vittoria Ferraris
Milan
+ 390272111207
vittoria.ferraris@spglobal.com

SECONDARY CONTACTS

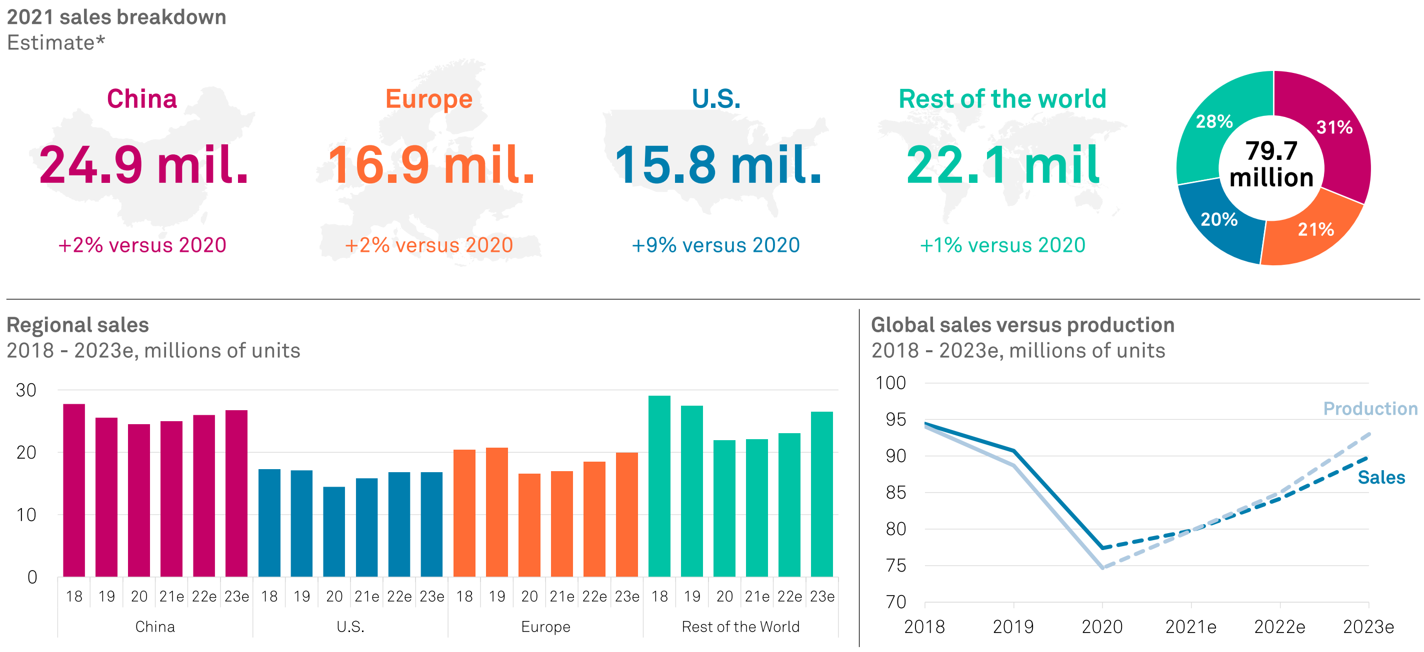
Nishit K Madlani
New York
+ 1 (212) 438 4070
nishit.madlani@spglobal.com

Claire Yuan
Hong Kong
+ 852 2533 3542
Claire.Yuan@spglobal.com

Lukas Paul
Frankfurt
+ 49 693 399 9132
lukas.paul@spglobal.com

Katsuyuki Nakai
Tokyo
+ 81 3 4550 8748
katsuyuki.nakai@spglobal.com

Supply Disruptions Slow The Recovery Of Global Light Vehicle Sales



*Percentage change is an average of the estimated range. e--Estimate. Source: S&P Global Ratings.

We are revising downward our expectations for global light vehicles sales in 2021 and 2022 in light of the intensifying shortage of semiconductors, which resulted in material unit losses during the third quarter. Visibility remains low because the supply-demand imbalance of chips continues to be amplified by some further negative events, such as the production shutdowns and resurgence of COVID-19 in Malaysia. Because the chip shortage has spread to consumer electronics, we assume that auto production will continue to be constrained into 2022 before gradually returning to normal in the second half of next year.

In our revised scenario we now expect light vehicles sales will increase moderately by about 2%-4% this year (versus our previous projections of 8% to 10%). This translates to sales just below 80 million units in 2021 compared to 83-85 million units in our previous projection in May this year. Based on the limited visibility on semiconductor supply since the crisis first emerged, we expect the shortage will extend into 2022. This has led us also to revise downward our projection of light vehicle sales for 2022 to 84 million units (from 87 million in our projection earlier this year). We nevertheless assume supply constraints will ease gradually, leading to a recovery of light vehicle sales to 90 million by the end of 2023. This is because macroeconomic conditions remain fairly supportive globally, notwithstanding a flatter-than-expected recovery from the COVID-19 shock (for further details see "Global Credit Conditions Q4 2021: Supply Chain Strain, Inflation Pain," published Sept. 30, 2021, and "Economic Outlook Q4 2021: Global Growth Is Steady As Delta Spurs Wide Regional Swings," published Sept. 28, 2021, on RatingsDirect).

We don't believe the supply-chain crisis on its own will affect auto manufacturer ratings. Despite the persisting lack of visibility combined with the sizable unit losses to production year-to-date, we still consider the semiconductor crisis as a temporary supply shock at this stage, exacerbated by other negative events this year that have also led to unexpected production downtime. However, a more prolonged crisis, with major production shortfalls exceeding our 2022 horizon, could lead to more profound revisions to our forecasts of issuers' earnings and cash flows, which could increasingly affect ratings. In our view, the crisis highlights the critical importance of supply-chain management for original equipment manufacturers (OEMs) and has exposed areas of vulnerability. Microchip bottlenecks are all the more acute because of the increasing tech content of more digitized and connected vehicles coming onto the market. This is leading to an increasing number of partnerships in this area (such as VW-Infineon, Hyundai-Magnachip, GM/Qualcomm, Renault-Qualcomm, Mercedes-Nvidia, Toyota-Panasonic, and Stellantis-Foxconn) not just to secure future supply, but increasingly also to gain greater control over the design and development of semiconductors. We don't, however, expect OEMs to produce in-house.

For now, OEMS are protecting their credit quality by taking advantage of much-improved pricing conditions. This is the case in every market segment, whether volume or premium, and is associated with a structurally lower level of inventories, which is limiting the impact of constrained volumes on credit metrics post COVID. However, we remain cautious as to whether the positive pricing momentum will remain sustainable once inventory levels normalize. In our view, high prices and low inventories are currently pushing buyers out of the new and into the used car market. This supports strong residual values that also benefit OEMs' financial services businesses. From a ratings perspective, however, it does not fully offset the detrimental impact from constrained volumes on the coverage of manufacturing fixed costs in OEMs' automotive divisions. With this in mind, we see no immediate pressure on auto manufacturer ratings, mainly due to their sound performance in the first half of 2021. We do, nevertheless, expect to revise downward free operating cash flow projections for the second half of this year, in some case also on the back of rising inventories of unfinished products. Overall, therefore, we expect a more moderate recovery of credit metrics for some OEMs compared to our previous expectations earlier this year.

The credit impact of supply disruptions could be more pronounced for auto suppliers. Suppliers suffer from sudden order cancellations by OEMs and bear the brunt of the limited visibility on supply chain shortages. As a result, the loss of volumes and top line is often compounded by inefficiencies in working capital management. Pressure on ratings could therefore materialize for some auto suppliers with tight liquidity and limited rating headroom, typically at the lower end of the rating scale. For the majority of the suppliers' population, we anticipate no immediate rating pressure, but simply weaker credit metrics compared to our previous expectations and a slower post-pandemic recovery. This could change, however, if supply chain bottlenecks extended well beyond our current expectations, causing the recovery of credit metrics anticipated for 2022 to fall flat. Furthermore, with an acceleration toward electromobility we expect some event risk for auto suppliers related to potential acquisitions to support the transition.

Table 1

Global Light Vehicle Sales Forecast

	--Actual--		--New projections (as of October 2021)--			--Our previous projections (as of May 2021)--		
	--2020--		2021e	2022e	2023e	2021e	2022e	2023e
	Mil. Units	% change year on year	--% change year on year--			--% change year on year--		
U.S.	14.5	(15)	9-10	5-7	0	14-16	-1-0	-1-0
China	24.5	(4)	1-3	3-5	2-4	5-9	2-4	2-4
Europe	16.4	(21)	1-3	8-10	7-9	9-11	7-9	7-9
Rest of the world	21.9	(20)	1-3	4-6	14-16	6-8	4-6	3-5
Global LV sales	77.2	(15)	2-4	4-6	6-8	8-10	3-5	3-6
Global LV production	74.6	(16)	6-8	6-8	8-10	12-14	6-8	1-2

LV--Light vehicle. Source: S&P Global Ratings.

Electrification Gears Up

Despite a general slowdown in sales of light vehicles in the world's most critical markets for the auto industry--China, Europe, and the U.S.--the share of electric vehicles (EVs) as a percentage of sales keeps increasing. This is being fueled by the regulatory push for lower-emission vehicles that is backed by subsidies in many markets and in spite of continuing concerns on the development of the charging infrastructure. Accordingly, we now expect global EV penetration in the 7%-10% range in 2021, increasing to 15%-20% in 2025. Despite the globally increasing EV trend, the model mix is regionally very diverse. The Chinese market is seeing very strong growth in low-cost EVs, as affordability remains an important consideration for local car buyers. While leading start-up companies gained a foothold in the EV segment quickly, the competitive landscape will shift gradually, with legacy producers that are currently underrepresented gradually ramping up their EV offerings. In Europe and the U.S., on the other hand, many OEMs have leapt into the electrification race, starting with premium cars and high-value SUVs. We expect the energy transition for autos to speed up in both regions, and especially in Europe, where the European Commission is considering further tightening the CO2 emission targets for passenger cars. It is proposing cutting the current standard of 95 grams of CO2 per kilometer by 55% by 2030 compared with the currently agreed target of 37.7% by 2030.

Table 2

Electrification Scenario--Share Of BEV And PHEV As % Of Total Sales

	2019	2020	2021e	2025e
Europe	2.7	10.0	15-20	>30
China	4.7	5.5	10-15	25
US	2.0	2.0	3-4	>15
Global	2.5	4.4	7-10	15-20

BEV--Battery electric vehicle. PHEV--Plug-in hybrid electric vehicle. e--Estimated.

Related Research

- U.S. Auto Sales Forecast Lowered For 2021, With A Bumpy Road In 2022; EVs Gear Up To Expand Share, Oct. 14, 2021
- Industry Top Trends Update: Autos EMEA, July 15, 2021
- Industry Top Trends Update: Autos North America, July 15, 2021
- The Hydrogen Economy: For Light Vehicles, Hydrogen Is Not For this Decade, April 22, 2021
- China Auto Industry Is On Track For Healthy Growth, March 9, 2021
- Global Semiconductor Shortages Could Chip Away At The Auto Sector's Recovery In 2021, Feb. 10, 2021

This report does not constitute a rating action.