Light vehicle sales forecast updated; synchronised sinking continues

We have updated our forecast for light vehicle sales in 2020 and incorporated the effects of the further spread of the COVID-19 virus to the US, South America, and South Asia. We have likewise slightly revised down our baseline forecast for light vehicle sales in other regions, aligning to recently updated economic forecasts.

Our outlook for the automotive industry remains negative and the expected deceleration of unit sales volumes in 2020 only strengthens this view.

We have updated our forecast for light vehicle sales (passenger cars, SUVs, CUVs, pick-up trucks) for 2020 to incorporate the effects of a further spread of the COVID-19 virus in the United States, South America, and South Asia.

We are now looking for a global drop in light vehicle sales of 16% in 2020 against our previous forecast from early March with a baseline of a 9% decline year-on-year. Our current forecast suggests a drop of 15m units in global volumes this year. The question of whether the global light vehicle market had peaked in 2017 is now behind us and answered (see our 2020 Automotive Outlook **here**).

We made the sharpest corrections in our forecasts for the US market, Middle East and Africa, South America and the South-Asian region.

Our previous stance that the European market will drop the most severely (-22% in 2020) remains unchanged.

Automakers worldwide will have to cope with the supply-side shock from closures of plants and will need to adapt to the demand-side shock to the industry from lower consumer confidence and economic knock-on effects such as higher unemployment, lower discretionary spending, possibly higher precautionary savings and hesitation in making large-ticket purchases such as cars.

Weaker business confidence, reduced business activities and measures to preserve liquidity by large companies and small and medium-sized enterprises (SMEs) will also drastically lower the demand for light commercial vehicles. Fleet sales, for instance, account for about 17%-18% of unit sales volumes in the US and a smaller percentage (14%-15%) in Germany. Typical fleet sales buyers such as car-rental companies have announced drastic measures to preserve liquidity and will likely not order new vehicles until funding is arranged and visibility on the important airport travel market improves. The resumption of normal production will take time.

We do, however, caution that a rebound in demand in the second half of 2020, in line with the baseline GDP forecasts of Scope's sovereign ratings team, depends on the

The availability of capacity across the entire automotive supply-chain. Though capacity utilisation at the original equipment manufacturer (OEM) level suggests there is sufficient spare capacity, this might not be true the most efficiently managed automotive suppliers. Near-term shortages of components will still be an issue once the pandemic is behind us. The pandemic may also get better and worse in multiple phases while the Covid-19 disease might be around in some shape or form for some time still, leading to risks that supply-chains remain vulnerable even if sales volumes do pick up in the near future.

Governmental incentivisation of vehicle purchases may only pull forward demand, as observed in 2009/10 following the financial crisis with various scrappage schemes ("cash-for-clunkers" in the US or the German "Abwrackprämie") alongside alternative variations of the Chinese vehicle purchase tax.

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Bloomberg: SCOP

GDP forecasts suggest deepest recession since 2009

Revised forecasts suggest deep recession

Scope's sovereign ratings team has revised down its 2020 global growth forecast to a new baseline of about -0.5%. Of note – global growth of under 2.5% is considered by the IMF as a global recession. The recession this year would represent the deepest since the global financial crisis when the global economy contracted by 0.1% in 2009.

Strongest downward revisions for countries in the euro area

The downside revisions to global growth are broad based and include revisions as regards China (to about 4.0% annual growth, from 5.8% for 2020 in December 2019 forecasts), the United States (to about -3.5%, from 1.5% in December), the euro area (to about -6.5%, from 1.1%) and Japan (to -4%, from 0.5%). In the euro area, Italy's forecast sees a large downward revision (to -7.5%, from 0.6%), as does Spain's (to -8%, from 1.7%). Forecasts for Germany (-5.2%, from 1.0%) and France (-6.3%, from 1.2%) also see large downside revisions. In emerging markets, Russia sees weak growth (-3.3%), impacted in 2020 by the collapse in oil prices and rouble volatility, while Turkey's economy returns to recession (-1% growth). Please see **Figure 1** for additional details.

Figure1: Scope ratings baseline forecast (April 2020)

Country/region	Real GDP growth (%)				
	2019E	2020F (April)	Diff. from Dec.	2021F (April)	Medium-run potential
Euro area	1.2	~ (6.5)	↓ 7.6	~ 4.5	~ 1.2
Germany	0.6	(5.2)	↓ 6.2	3.3	1.3
France	1.2	(6.3)	↓ 7.5	4.1	1.5
Italy	0.2	(7.5)	↓ 8.1	4.5	0.7
Spain	2.0	(8.0)	↓ 9.7	4.5	1.7
United Kingdom	1.4	(3.3)	↓ 4.0	1.8	1.5
Russia	1.3	(3.3)	↓ 4.8	2.3	1.3
Turkey	0.9	(1.0)	↓ 4.0	3.0	3.9
United States	2.3	(3.5)	↓ 5.0	2.1	<2.0
China	6.1	4.0	↓ 1.8	6.0	5.0
Japan	0.8	(4.0)	↓ 4.5	1.9	<1.0
World	2.9	~ (0.5)	↓ 3.5	~ 4.0	-

Negative growth rates denominated in parentheses.Source: Scope Ratings GmbH forecasts, Haver nalytics.More details in Scope's Q2 2020 Sovereign Update: Covid-19 pandemic's economic impact: significant risk as the world economy falls into recession.

Neither "V"- nor "L"-shaped recovery expected – China out of the doldrums first

A gradual economic recovery has begun in China. since mid-February. We expect neither a "V-shaped" recovery as some effects of the pandemic on supply chains and consumer/business confidence will be much longer-lasting, nor an "L-shaped" recovery in which economic activity remains in a trough for a very prolonged time. We expect something in between. As China is the centre of global supply chains and the starting location of this public health crisis, China's recovery will similarly precede those in trading partners like the US and Europe, with the latter economies beginning to recover after an additional delay.

Time lag of virus spread across regions and countries

The spread of Covid-19 across the globe was not simultaneous across regions and countries. Non-pharmaceutical interventions aimed at mitigating the transmission of the virus through policies such as social distancing and closures of public venues (schools, universities, churches, bars, and other venues) have likewise been implemented with a time-lag worldwide.

Light vehicle sales forecast updated; synchronised sinking continues

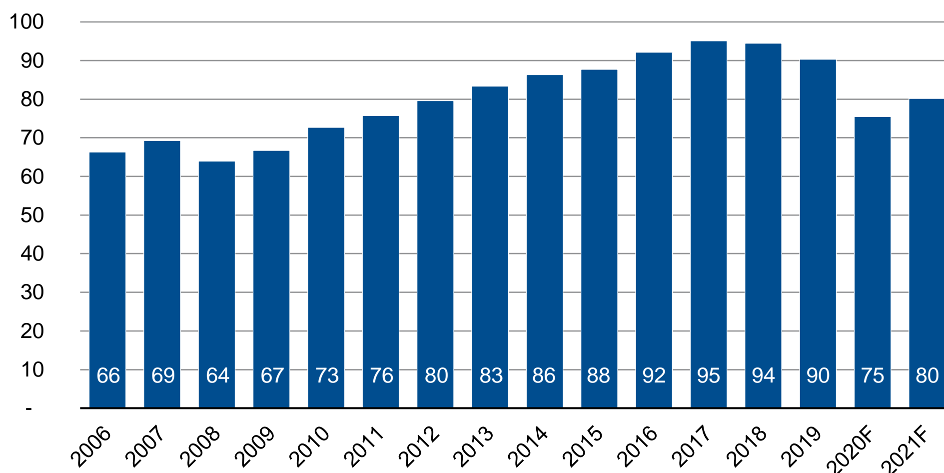
Volume adjustments for those regions that have lagged so far

Our revised auto sector forecasts now capture the effects of lockdowns and other non-pharmaceutical measures in the Middle East and Africa, North America, South America and South Asia. Following the spread of the virus in the United States, we made the most significant adjustments to our light vehicle sales forecasts for that region and now expect the US market to decline to 14.2m units in 2020 (down 16% year-on-year). The nationwide lockdown in India since 25 March 2020 has also led us to revise down the volume outlook for this region significantly to -19% year-on-year. We made similar adjustments to the South American region to capture the effects of the lockdown in April from the middle of March until the middle of April.

Light vehicle sales to drop to levels not seen since 2009

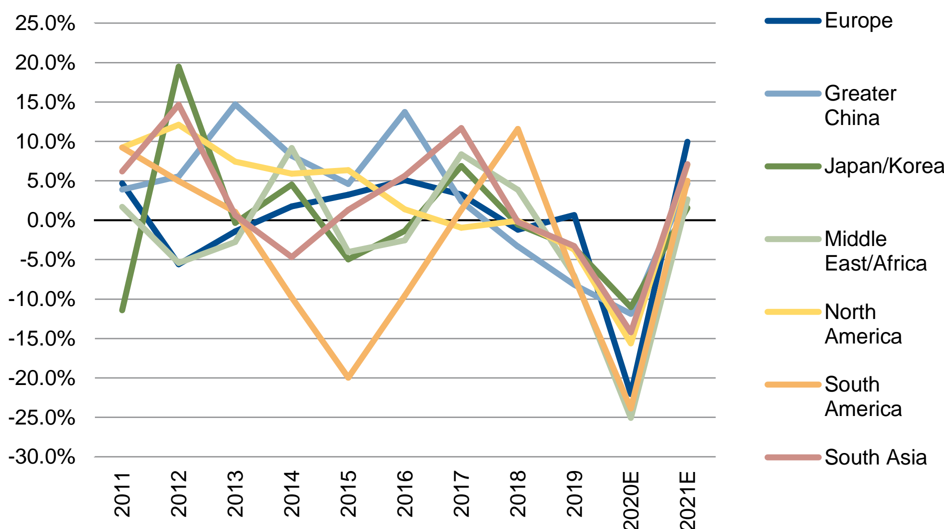
We are now looking for a unit-volume decline of light vehicle sales of 16% worldwide in 2020, representing a loss of 15m units in just one year. This would place global volumes at levels from about 2010, the first year of the economic recovery after the economic and financial crisis of 2008-2009.

Figure 2: Global light vehicle sales (in mio. units)



Source: LMC Automotive, Scope Ratings GmbH

Figure 3: Global light vehicle sales growth year-on-year



Source: LMC Automotive, Scope Ratings GmbH

Mental distancing from large-ticket purchases

Large-ticket discretionary spending for items such as cars will likely be negatively affected for quite some time. The economic knock-on effects of the pandemic are mitigated by various direct fiscal injections and liquidity/loan assistance programmes, Germany's fiscal stimulus package, for instance, is about 3.8% of GDP and the guarantees scheme to prevent a liquidity crisis in the corporate sector about 18% of GDP. The bill signed by the US Senate represents a fiscal stimulus of 4% of GDP. For further details of fiscal and monetary stimulus announcements please see Annex I. We have captured the various fiscal programmes put in place over the past few weeks in our baseline GDP forecast but continue to see substantial risks for weak consumer confidence and rising unemployment, only partially mitigated by policies such as short-time work schedules. Social distancing is very likely to be followed by more durable psychological distancing towards big-ticket discretionary spending such as new vehicles and consumers are likely to react with increased precautionary savings until the pandemic is perceived to have been resolved with an effective vaccine (unlikely before mid-2021 at the earliest).

Risks for rebound of infections in 2H-20 and 1H-21

Looking beyond the first half 2020, and assuming that confinement is relaxed in the coming weeks in Europe, the risk for a rebound of infections still exists, with the possibility of a further round of policies for social distancing later in the year. Ultimately, non-pharmaceutical interventions may stay in place until a vaccine becomes available, posing a further risk to global light vehicle sales.

China – first in the crisis, first out but severe declines in 2020

China's March figures suggest improvement

Our forecast for China remains broadly unchanged. The spread of the coronavirus in the region, including shutdown of production facilities and spill-over effects on the economy, have led to a drop in car sales of 86% in Feb. 2020 according to the China Passenger Car Association (CPCA) after a decline of 18% in January. During its March 2020 analyst call, Volkswagen, one of the largest players in the region, indicated that the run-rate of vehicles produced in China in March 2020 has recovered to levels of around -50% to -60% year-on-year.

Effects far beyond the epicentre of the pandemic

The effects of the coronavirus have spread far beyond its epicentre in Wuhan, which itself accounts for about 8% of light vehicle production and about 4% of light vehicle sales in China, according to the CPCA. Sales statistics for the first two months of the year suggest that consumer sentiment in China has clearly worsened, even if March Purchasing Manager Indexes similarly indicate rebound since March.

Even assuming a gradual normalisation entering H2-20, still a drastic fall in units

While we see a gradual normalisation of light vehicle sales in the second half of 2020, we do not expect the coronavirus' full effects to be compensated for later in the year. Consequently, we expect a year-on-year decline of 12% in 2020.

Rebound in 2H-20 assumes capacity across entire supply chain

We believe the assumption of a recovery in the second half of 2020 should not rest on the erroneous idea that the entire supply chain will have the capacity to produce those 'extra' vehicles later in the year. While capacity utilisation at Chinese OEMs was fairly low, at around 75% in 2019, we cannot reasonably assume that the automotive supply chain is likewise running at these low levels. The capacity for final assembly is most likely the easiest one to scale up to accommodate higher demand later in the year for OEMs, assuming demand recovers, as the number of shifts can be changed.

Initial capacity constraints should be expected

Looking through the supply chain, including capacity utilisation on the supply side, is difficult (acknowledging that auto suppliers rarely publish these numbers). Knowing that auto suppliers are used to a high degree of efficiency and that Chinese OEMs' capacity utilisation was running below those in the US (80%-85% before the pandemic) and in Europe, the premise of a rebound assumes that the entire auto supply chain was running at low capacity utilisation prior to this pandemic. We do not follow that thought process

and instead believe that capacity restraints among automotive suppliers (spare capacity is used up quickly once demand rebounds) will eventually be the restraint for Chinese OEMs. Keeping in mind that 100% capacity utilisation is not an efficient way to run mass production of vehicles and components, the headroom to accommodate a strong rebound in light vehicle sales is limited in the second half of 2020.

Demand rebound in China linked to government incentives

In our eyes, a recovery of demand in the Chinese market is similarly linked to governmental purchase incentives once the crisis is behind us. One lever used by the central government in the past was a reduction in the vehicle purchase tax. In addition, the central government may consider increasing licence plate quotas in some cities/provinces. Increasing quotas would have limited effects on light vehicle sales, lifting annual demand by about 1%, depending on the terms of a new quota, including possible increases in licence plates for vehicles with internal combustion engines,

Governmental stimulus to lead to "payback" subsequently

Governmental stimulus such as a variation of the vehicle purchase tax is a double-edged sword, as previously observed in China. Changes in vehicle purchase taxes would only pull forward demand, in our view, with a subsequent 'pack-back' in later periods. The recovery we foresee for China over 2020 and into 2021 is strongly linked to governmental policies in 2020: the higher the subsidisation and artificial boost to light vehicle sales in 2020, the lower the recovery in 2021. For the time being, we expect a mild recovery of 3% year-on-year in 2021.

Europe to be hit the hardest after record levels in 2019

Developments in 2020 also a reflection of the recent past

Expected developments for the European market in 2020 must be viewed in conjunction with its recent past. In 2019, the western European market was broadly stable. Based on data published by the European Automotive Manufacturers' Association, registrations in key European markets rose by 1% in Germany (+5% in H1 2019), 1.9% in France (-1.8% in H1 2019), 0.3% in Italy (-3.5% in H1 2019), but declined in Spain by 4.8% and in the UK by 2.4%.

Western Europe enters downturn from peak levels

Modest growth in 2019 marked the sixth consecutive year of passenger car registration growth in the EU, with the western European market almost reaching pre-crisis (2007) levels. While this appears backward-looking, we want to highlight that car registrations in western Europe in 2019 have already been supported by the de-stocking of inventories related to the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in September 2018. Further support in the German market came from trade-in bonuses, environmental bonuses and various discounts and incentives for older diesel vehicles. While exact data are not available, we also believe that all car OEMs have incentivised the sale of high-CO2-emitting vehicles before the CO2 emissions legislation comes into effect in 2020.

Jan. and Feb. declines don't show the full picture

We expect the western European market to drop by almost 3m units (or 20%) in 2020. This is much higher than the 7.5% decline in passenger car registrations reported by ACEA, the European Automobile Manufacturers' Association, for the first two months of 2020. The full effect of lockdowns and non-pharmaceutical interventions will be felt for the remainder of the year. Much of the expected decline in western Europe will be in Germany, in our view, where we expect no special incentives in 2020, as well as those countries most severely affected by the corona crisis, Italy and Spain. Our forecast for Europe includes a massive decline in light commercial vehicles typically used by SMEs, as we believe that the replacement of those vehicles is postponed in view of difficulties that some SMEs may face in terms of funding and business conditions.

Oil price to leave its marks on demand for vehicles in Russia

A key market in eastern Europe that will add to the woes in Europe is Russia. The sharp decline in oil prices (despite the recent modest increase in crude prices on hopes of an OPEC+ deal to curtail supply) and high dependence of Russia's economy on crude

oil/gas exports should have a massive impact on light vehicle sales. While the Russian market has already diminished in size (1.8m units in 2019 after 2.5m in 2014 and 2.8m in 2013), we see the risk of a further deterioration by 0.8m units in 2020.

European market enters downturn with high incentives

Unit volume sales are, of course, a function of appealing products, availability of financing, disposable income and, most importantly, OEM purchase incentives. According to Autodata, average incentives in Europe moved to EUR 5,000/vehicle in late 2019, up from about EUR 3,000/vehicle. This is another indication that the starting point for the current crisis is an inflated market supported by factors including low interest rates, high incentivisation, and a favourable economic environment (low unemployment and high business/consumer confidence). We would not expect car OEMs to compromise lending practices and underwriting standards to support vehicle sales and believe the pro-cyclical nature of the lending cycle will now move to 'risk on' for consumer financing, eventually leaving its mark on light vehicle sales in the region.

United States – almost back to 2009 and boilerplate for analysis

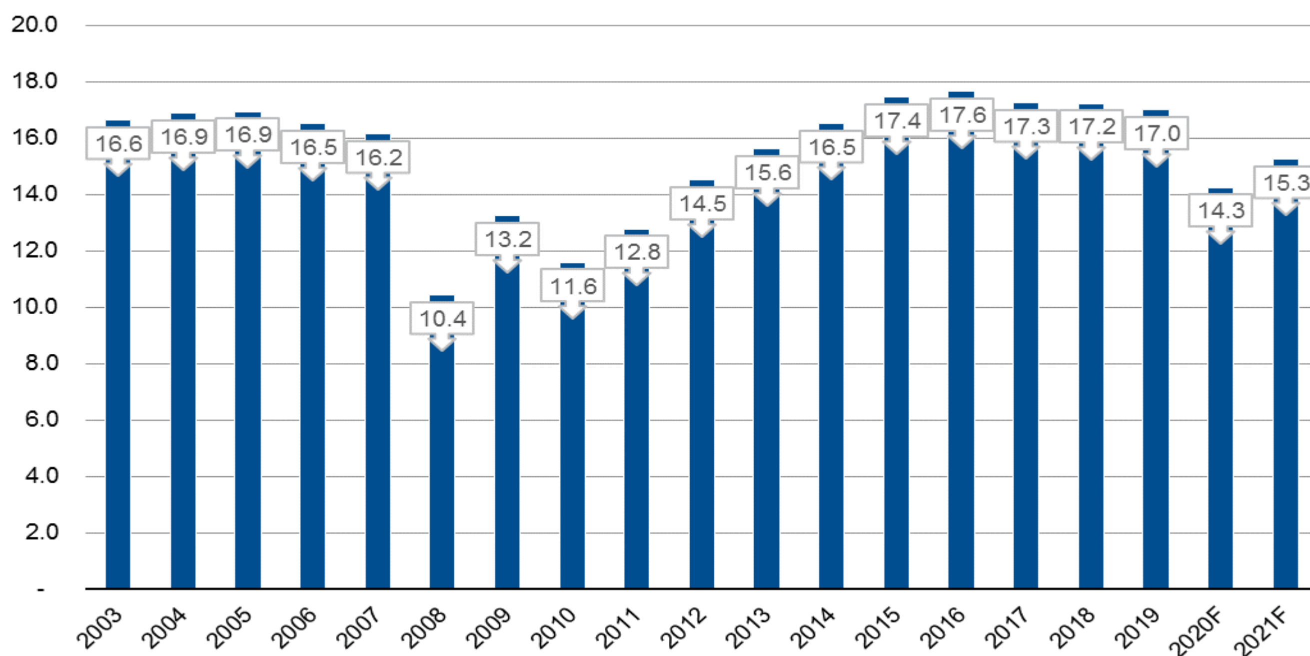
Full effect of COVID-19 now included in US forecast

With the now significant spread of the coronavirus in the US, we have made the most significant adjustments in our light vehicle forecasts for that region and now expect the US market to decline to 14.2m units in 2020 (down 16% year-on-year). Even without the current pandemic, we have been cautious on volume developments for the US in 2020. The record-high filing for unemployment of 6.6m initial jobless claims reported by the US Bureau of Labor Statistics has abundantly terminated the job growth phenomenon in the US that lasted for the past decade, with an unemployment rate that had reached a 50-year low. While the US Senate has passed a USD 2trn coronavirus aid package to help workers and businesses, we do not see the effect of this stimulus programme as quickly feeding through to light vehicle sales. Assuming fleet sales (car rental companies, etc.) cut their vehicle purchases in the first half of 2020 alone would explain almost 50% of the decline that we currently expect for the full year. This would leave a decline of "only" 1.2m-1.5m units from retail buyers including a broad range of self-employed and small enterprise buyers.

Historic data in the US good example to explain stimuli

The US market provides a good boilerplate to analyse the likely effects of car purchase incentive schemes if any such industry-specific fiscal stimuli were enacted in addition to the broad schemes currently being rolled out by a broad number of countries worldwide. In 2009, the year of largest drop in US GDP during the global financial crisis, light vehicle sales increased from 10.4m to 13.2m. Keeping in mind that light vehicle sales were supported by a special government stimulus programme ("cash-for-clunkers") similar to the purchase incentive scheme introduced in Germany at that time ("Abwrackprämie"), one can easily see the "pay-back" from these programmes one year later. The US market dropped to 11.6m units in 2010, the year when US GDP accelerated after the crisis. The same phenomenon will, in all likelihood, be observed across all regions and markets worldwide if auto-specific stimulus programmes were enacted and we believe that any such pull-forward of demand will only leave its negative markers on vehicle sales numbers one year later.

Figure 4: Light vehicle sales in the US (in mio. units)



Source: LMC Automotive, Scope Ratings GmbH

Annex I: Fiscal and monetary response

Figure 4: Fiscal stimulus announcements in response to the Covid-19 pandemic

Euro area					
Country	Fiscal stimulus, EUR	Fiscal stimulus, % GDP	Public guarantees, EUR	Public guarantees, % GDP	Key measures
Italy	EUR 25bn+	1.4+	EUR 350 bn	19.6	Funds for the health system, liquidity to small- and medium-sized enterprises (SMEs), increase in social safety nets, tax deadline extension, social security contributions relief, childcare subsidies
France	EUR 45bn	1.9	EUR 300bn	12.4	Reduced social security contributions, unemployment benefits, solidarity fund for self-employed
Spain	EUR 17bn	1.4	EUR 100bn	8.0	Delay in mortgage payments, easing social security contributions, increase in safety nets and unemployment benefits
Germany	EUR 122bn	3.8	EUR 600bn	18.0	Social spending and company emergency aid in a coordinated effort to prevent deeper economic disruption. Rescue fund to provide virus-hit companies with loans and guarantees as well as buy stakes in stricken businesses.
Netherlands	EUR 15.6bn	2.0	EUR 1.4bn	0.2	Liquidity to SMEs and self-employed, support for heavily-impacted industries, childcare subsidies
Ireland	EUR 6.3bn	3.2*			Illness benefit payments, wage subsidies, unemployment benefits, support to businesses
Austria	EUR 29bn	7.3	EUR 9bn	2.3	Tax relief, support to furloughed employees, support to SMEs and self-employed
Portugal	EUR 5.7bn	3.0	EUR 3bn	1.4	Flexible payment schedules for tax payments, reduction of social security contributions, credit line to affected businesses
Greece	EUR 6.8bn	3.5	EUR 1bn	0.5	Loan payment relief, support to SMEs, self-employed and health sector workers

Other European countries					
Country	**Fiscal stimulus, local currency (LC)**	**Fiscal stimulus, % GDP**	**Public guarantees, LC**	**Public guarantees, % GDP**	**Key measures**
Poland	PLN 66bn	2.9	PLN 74.5bn	3.3	Salary integration, delayed social security contributions, help for the self-employed, infrastructure investment, healthcare spending
Denmark	DKK 65bn	2.8	DKK 220bn	9.5	Government grants to cover companies' fixed costs, salary integration for self-employed, support for SMEs and hard-hit businesses
UK	GBP 41.5bn	1.9	GBP 330bn	14.9	NHS spending, tax breaks and cash grants to companies in hard-hit sectors, liquidity for SMEs, sick pay refund
Norway	NOK 65bn	1.8	NOK 100bn	2.8	VAT cuts, tax and social contributions deferral, support for the self-employed, support for the aviation sector
Switzerland	CHF 22bn	3.0	CHF 20bn	2.9	Wage subsidies to SMEs, support for self-employed and laid-off workers

Other Countries					
Country	**Fiscal stimulus, LC**	**Fiscal stimulus, % GDP**	**Public guarantees, LC**	**Public guarantees, % GDP**	**Key measures**
US	USD 800bn	4.0	USD 900bn	4.5	About 800bn in direct outlays (USD 250bn for direct payments to individuals and families, USD 250bn for unemployment insurance benefits, USD 130bn for hard-hit hospitals and USD 150bn for state and local governments), and about USD 900bn for loans and guarantees (USD 367 for small businesses with less than 500 employees and USD 500bn for distressed companies).
China	N.A.	N.A.			Social insurance relief, VAT waivers, electricity bill discounts, infrastructure spending projects
Japan	JPY 15trn	2.4			About JPY 15trn (JPY 13trn relate to agreed stimulus from December 2019). Additional significant measures in the realm of up to JPY 30trn under discussion.
Russia	RUB 2trn	2.0			Tax breaks (tourism, airlines), preferential loans, tax breaks for SMEs
Turkey	TRY 101.2bn	2.0			Suspension of social security contributions, support for low-income pensioners, payments to households in need, VAT deductions

* of national GNI

Source: governments' announcements, OECD, Scope Ratings GmbH

Figure 5: Monetary policy decisions by major central banks in response to the Covid-19 pandemic

Central bank	Monetary response
Federal Reserve	• **Interest rate cuts**: **-**150bps (in two steps) to now 0-0.25% target range • **Asset purchases**: initially at least USD 700bn in Treasuries and agency mortgage-backed securities purchases over coming months, now converted to unlimited purchases • **Banking rule easing**: encourage banks to utilise liquidity and capital buffers they have to extend credit
ECB	• **Asset purchases**: additional EUR 120bn of QE + EUR 750bn Pandemic Emergency Purchase Programme (PEPP), including flexibility on time, jurisdiction and instrument of purchases, and extension to Greek sovereign bonds and commercial paper • **Support for credit markets**: additional long-term refinancing operations (LTROs), more favourable conditions on forthcoming targeted long-term refinancing operations (TLTROs) • **Banking rule easing**: capital and liquidity rules softened to prevent credit crunch, reductions in counter-cyclical capital buffer rates by national central banks
Bank of Japan	• **Asset purchases**: double ETF and REIT annual purchase targets (up to JPY 12trn (USD 112.5bn) for ETFs and JPY 180bn for J-REITs) • **Support for credit markets**: loans at 0% interest rate for corporate financing (Special Funds-Supplying Operations); increase in the upper limit for purchases of commercial paper and corporate bonds by JPY 2trn • **Banking rule easing**: decrease by 25bps for loan rate on USD liquidity swaps
Bank of England	• **Interest rate cuts**: **-**65bps (in two steps) to 0.1% • **Asset purchases**: GBP 200bn fresh asset purchases of government and sterling non-financial investment-grade corporate bonds • **Support for credit markets**: new Term Funding Scheme targeted at SMEs (TFSME) • **Banking rule easing**: 200bp cut in the counter-cyclical capital buffer rate to 0% effective immediately
People's Bank of China	• **Interest rate cuts**: 30bp reduction (in two steps) to 2.2% on the 7-day reverse repo rate • **Support for credit markets**: injections and targeted support to provinces most hard hit**,** cut reserve requirement rate, RMB 500bn in funding for banks to lend to SMEs and firms in agriculture, policy banks to offer RMB 350bn in special loans to small firms

Source: Central banks' announcements, Scope Ratings GmbH

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