
Automotive Outlook 2021

The credit outlook has improved to stable from negative. After dramatic slump in 2020, auto makers can expect modest rebounds in sales this year.

Automotive, Scope Ratings GmbH, 4 January 2021

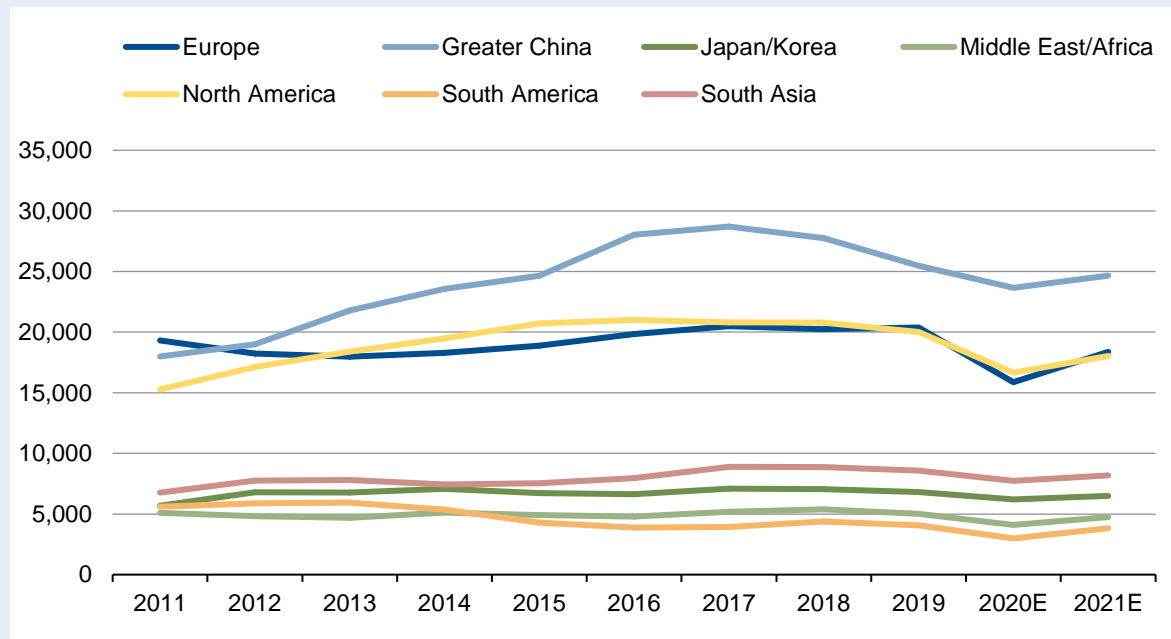


Executive summary

The credit outlook for the automotive sector in 2021 is stable, changed from the negative view that we have had on the sector over the past three years.

The spread of the Covid-19 virus has left its mark on global light vehicle sales but global volume declines in 2020 may turn out to be lower than feared in March/April 2020 when the pandemic was in its first wave.

Figure 1: Volume expectations for key global automotive regions ('000 units)



Source: LMC Automotive, Scope Ratings estimates

- We are now looking for a global decline of light vehicle sales of about 15% with some regions such as Europe (-22% y-o-y) and South America (-26% y-o-y) developing worse than previously expected.
- We see a bounce-back of demand in 2021 closely linked to the roll-out of vaccines, assuming no material second waves of Covid-19 that could lead to a reoccurrence of lockdowns.
- Sales of electrified vehicles continue to depend on government subsidies; a broad range of new models will be launched in 2021.
- We see carmakers in Europe achieving the 2020 CO2 emission targets, supported by a rising share of electrified vehicles in their line-ups and use of options built into the regulatory framework.
- Most original equipment manufacturers will benefit from a long-standing strategy to keep leverage at low levels. Companies that are well prepared financially - with ample liquidity, modest leverage – will manage the transition to electrification and autonomous driving.

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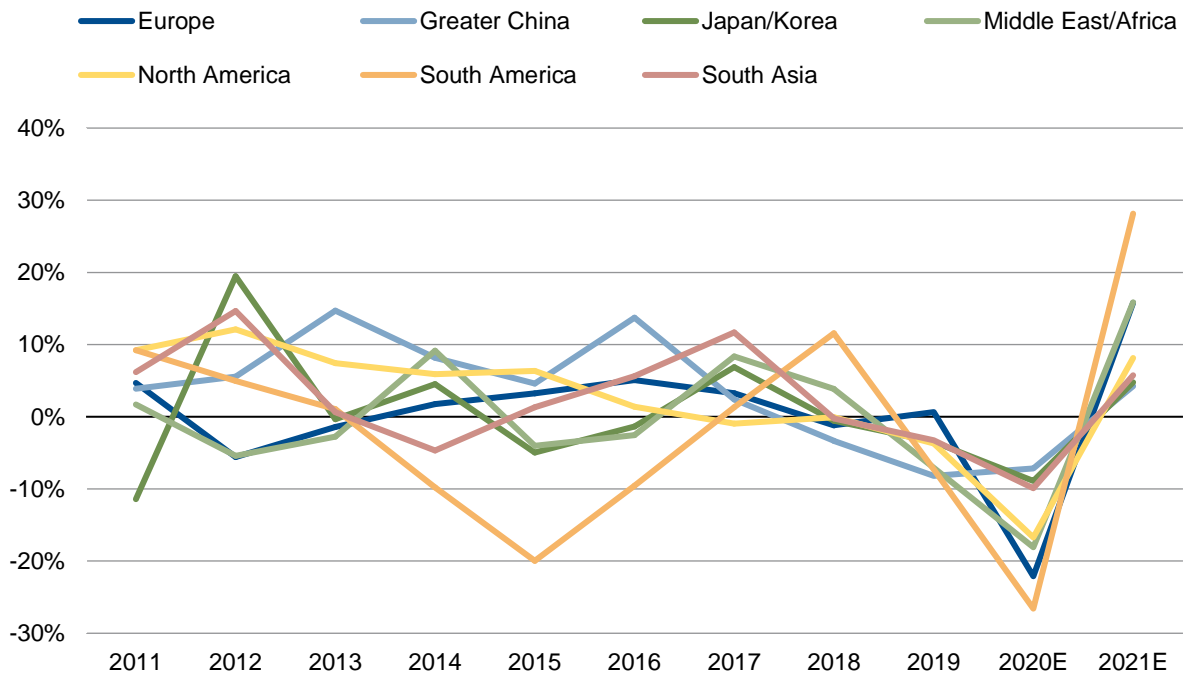
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Light vehicle sales forecast for 2020 and 2021

We have revised our forecasts for light vehicle sales for the years 2020 and 2021. For 2020, we had forecasted a global decline of light vehicle sales (passenger cars, SUVs, light trucks) of 15%-20% in 2020 until we updated our forecast (Sept. 2020) to most recent market readings.

The dynamics of the bounce-back of auto markets in certain regions such as China, the US and Europe in the third and fourth quarters have led to revisions of forecasts toward the lower end of the 15%-20% range. We continue to see the European (-22% y-o-y) and South American (-27% y-o-y) to be auto markets worst affected by the Covid-19 crisis.

Figure 2: Global light-vehicle sales growth rates year-on-year



Source: LMC Automotive, Scope Ratings

From ‘V’-shaped to re-stocking – outlook by regions

Outlooks by region

North America / U.S.

The **US market** has shown increasing volumes sequentially following a disastrous 1H20. LV sales were +1% in the month of October year-on-year. Not unsurprisingly, retail sales showed more resilience than fleet sales, in line with our previous thoughts that fleet sales (sales to rental companies, government agencies and commercial business), representing about 17%-18% of total LV sales in the region, are unlikely to recover quickly.

Slightly more than half of fleet sales (around 1.7m units in 2019) of OEMs were done with large rental companies. The high dependence of car-rental companies on airport locations and drastically lower air traffic volumes have led to serious difficulties for the sector. In view of the downsizing of car rental fleets, we see demand from car rental buyers recovering only once traffic picks up at important airport locations. We have also observed an increase of used-car prices in the US in the middle of the year supporting the anecdotal observations of the shift toward individual from public transportation during the pandemic.

One driver of accelerated LV demand in the US since the middle of 2020 is re-stocking in the wholesale channels. US light vehicle inventories are at historic lows and in view of the improved visibility about a -19 vaccines, wholesale channels have started to re-stock their showrooms.

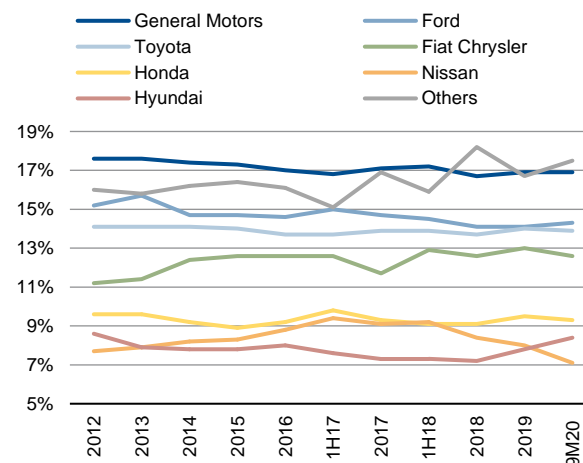
Market shares in the US market have not changed despite the various shutdowns of plants and we view the market position, as measured only by market share, to not have changed materially in 9M20 except for the continuation of Nissan’s loss of market share.

Market shares and market share movements must be interpreted in conjunction with the product launches/facelifts of the respective OEMs with two exceptions: the loss of market share of OEMs currently more focused on the passenger car market rather than light trucks/SUVs/CUVs; and the share of vehicles grabbed by electric-car pioneer Tesla. We have not observed significant shifts in market shares in the US market over years and we continue to caution to “over-interpret” market share data that is prominently disseminated through various media channels regularly. According to LMC Automotive, about 80% of all new product launches such as facelifts or new

models were affected by the Covid-19 crisis in 2020 but it appears that all OEMs have been hit equally.

For the North American market (including Mexico and Canada) we are now looking for a demand rebound of 8% in 2021 as most of the re-stocking of inventories may have taken place until year-end 2020 leaving the region’s market down 16% in 2020.

Figure 3: Market shares US auto unit sales



Source: LMC Automotive, Statista

China

The largest LV market worldwide, has shown a ‘V’-shaped recovery of its auto market throughout 2020 since the market troughed in March 2020.

Vehicle purchase incentives offered by local Chinese regions such as removal of vehicle purchase taxes for new-energy vehicles have continued to support car buyers in the 2H20. As a result, we see the Chinese market to suffer only a single-digit percentage market decline in 2020. This is the third consecutive year of declines in light vehicles sales.

We have considered the effects of government stimuli in our forecast for the Chinese market for 2021. Changes in vehicle purchases taxes or other governmental purchase incentives remain a double-edged sword leading to a pull forward of demand rather than the creation of incremental demand with a subsequent pull-back in later periods. While we now see the Chinese market to decline by only 7% in 2020 (vs. -12% before), we stick to our view that the rebound of demand in 2021 will be more muted in this region given the risks of the ‘pre-buy’ effect created in 2020 through fiscal stimuli.

Europe

The European market was severely affected by the lockdowns and other coronavirus-containment measures that led to the closure of car dealers, vehicle registration offices and vehicle assembly plants across the region.

The economic knock-on effects of the pandemic were mitigated by various governments' fiscal stimulus across the region including liquidity and loan assistance programs.

Data provided by ACEA show a decline of the EU car market (EU, EFTA, UK) by 40% in 1H20 with monthly sequential improvements since then.

Year-to-date to October 2020, the European car market is down 27% year-on-year but the reading for October 2020 is a decline of only 7% year-on-year with large markets such as Italy, Germany, UK performing better than the EU average.

Demand in Germany, for instance, is supported by the auto sector support program approved in June 2020 including innovation bonus subsidies for electrified vehicles on top of the temporary reduction of value-added tax from 19% to 16%. A similar environmental bonus scheme was introduced in France in the middle of the year. Developments over the recent months suggest that the European market should finish the year with a significant drop in volumes but not as high as expected in our previous estimate.

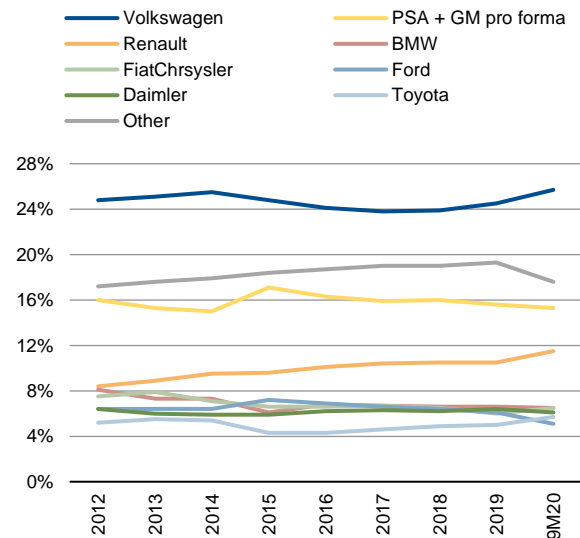
We are now looking for a 22% decline of the European market in 2020. Our forecast for Europe includes a massive decline in sales of light commercial vehicles typically used by SME's, as we believe that business owners will delay the replacement of those vehicles given the difficult funding and business conditions. For Europe, we expect a strong recovery of light vehicles sales of 16% in 2021.

Similar to the US market, we have not observed large shifts in market shares across the European market in 9M20 except for two movements. Volkswagen reached one of the highest market shares in the past decade (about 26%), in line with our earlier expectation that the high-volume attractive to broad customer demographics, the new Golf VIII launched in late 2019, will remain a best-seller for the Volkswagen group.

Renault achieved a further notable advance in market share that is likewise related to the product launch cycle. With the launch of the Renault Captur compact SUV in 2019, the new high-volume Clio model in early 2020 and very large share of electrified vehicles, Renault has advanced its market share by 100 basis

points in 2020. As we have highlighted before, changes in market share are closely tied to product launches (facelifts, new models) and with the existing inventory of models ageing, we see every OEM to benefit from model renewals frequently with some temporary market share improvements. Market share changes related to product renewals or new models are, however, mostly short-lived improvements of the market position that tend to be balanced by product renewals of competitors over time.

Figure 4: European market shares



Source: ACEA

Key risks to forecasts

Key risks to our 2021 forecasts are second-wave lockdowns that could affect dealership business and restocking effects in the wholesale channels.

The recovery pattern in more mature car markets such as the US and Europe will unlikely match the 'V'-shaped recovery in China and economic spill-over effects in mature regions such as phasing out of short-time work schemes are a further risk.

Vaccine approvals by health authorities are not, in themselves, the solution to the world's economic woes – or those of the car industry. Only widespread vaccination during 2021 will help to bring auto markets to a more normalised level. While have some anecdotal evidence that a trend for individual transportation versus public transportation has emerged during the pandemic, we see this phenomenon as short-lived.

Electric car sales – Europe takes pole position

Europe has become the world's hottest electric-car market in 2020 despite the slump in overall auto sales, underscoring how government subsidies continue to drive global demand for light vehicles with alternative powertrains.

We forecast a rise in global electric vehicle (EV) sales to around 2.9 million units in 2020 from 2.1 million units in 2019, when growth was a relatively weak 6%, based in part on estimates from the International Energy Agency.

First-half EV sales rose 14% in contrast with the 28% slide in sales of all light vehicles. Plug-in hybrid vehicles (PHEVs) rather than battery-electric vehicles (BEVs) continue to make up the majority of EV sales worldwide.

In Europe, new customer subsidies have come into force in June and July, notably in France and Germany, ensuring bumper summer EV sales compared with 2019. EV sales should approach 1m units this year, not far from recent peak sales in China. Sales of that magnitude in Europe – equivalent to around 7% of all light vehicles sold (7.5% in H1) – would allow European original equipment manufacturers (OEMs) to meet emissions targets set by the European Union, thereby avoiding environmental penalties.

Subsidies will also determine growth in the US, where the government has toyed with the idea of phasing out a volume-linked tax credit for BEVs, despite a steep decline in demand of the broader market. In China, sales of new energy vehicles (NEV) – comprising BEVs, PHEVs, and fuel-cell cars - will likely remain subdued following the 70- 80% reduction in purchase subsidies in July 2019. The new regime favours longer-range BEVs which should spur demand for new models in the future. For now, the aggregate subsidies are significantly lower than previous incentives for customers to buy cars with alternative powertrains.

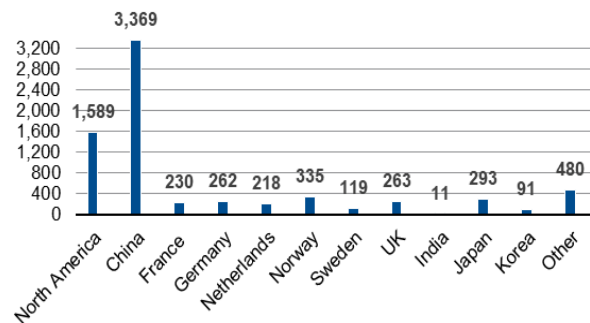
The crucial role subsidies play was evident in how EV sales developed in 2019, the first year in the past 10 when demand grew by less than 50%. Demand fell in China, with the reduction in incentives, and in the US, where sales volumes of Tesla Inc. and General Motors Co. EVs crossed thresholds that led to cuts in generous consumer tax credits. Strong deliveries of Tesla's Model-3 sedan in 2018 also distorted comparisons.

The enduring importance of subsidies shows that BEVs have not yet become a compelling alternative to vehicles with internal combustion engines. In Europe, the roll-out of a wide variety of new EVs through 2020

will give customers a much broader choice. If technological improvements reduce battery costs, helping to bring down sticker prices for new cars, and generous incentives remain in place, we expect EVs will become an increasingly competitive alternative to petrol- and diesel-fuelled light vehicles – repeating the experience of the initially heavily subsidised wind and solar energy sectors which are now an established part of the Europe's electricity networks.

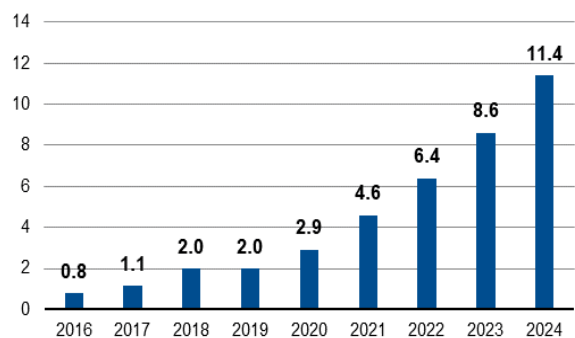
One caveat: from the research we have reviewed, we conclude that scale effects in battery-cell production are limited given the high proportion of costs made up by raw materials such as cobalt. Recent technical developments of battery-cell chemistry with lower shares of cobalt have helped lower unit costs for battery cells but only the next generation of lithium-ion batteries expected in 2025 will likely lead to a significant drop. For further details see our research note [Electric car sales: Europe takes pole position; Government subsidies still determine demand, 28 Sept 2020](#).

Figure 5: Electric car sales by region ('000 units)



Source: International Energy Agency; data is cumulative for years 2010-2019

Figure 6: BEV and PHEV unit sales forecast (mio.)



Source: International Energy Agency, Scope Ratings; BEV: Battery-electric vehicle, PHEV: plug-in hybrid electric vehicle.

Emission targets

Car makers are on track to meet more stringent EU carbon emission targets in 2020 and 2021, helped by a subsidy-fueled boom in electric vehicle sales, pooled carbon-dioxide credits and incremental gains in conventional engine technology.

Original equipment manufacturers (OEMs) still have some work to do to hit targets for average carbon dioxide (CO₂) emissions for their vehicle fleets in 2020-21. We believe that OEMs will invest sufficiently in bringing to market and promoting vehicles with low-emission technology – mostly plug-in hybrid electric vehicles (PHEVs) rather than battery-electric vehicles (BEVs) - so that the share of BEVs/PHEVs in the sales mix this year and next is sufficient to avoid EU fines.

Helping them is the flexibility built into the EU regulations offering indirect ways of reaching the targets through pooling emissions performance and gaining credits for approved emissions-reducing innovations.

Car makers are pursuing similar strategies for CO₂-compliance, including the expansion of their offering with mild hybrid (48V) technology, including more PHEVs in their model line-ups, and launching new BEVs in addition to taking advantage of the other provisions in the EU regulations to indirectly meet emissions targets. Sales of electrified vehicles boomed in the first half, representing 8% of all vehicles sold in the European Economic Area – EU member states, European Free Trade Association members and the UK – a tripling in volumes from the same period in 2019.

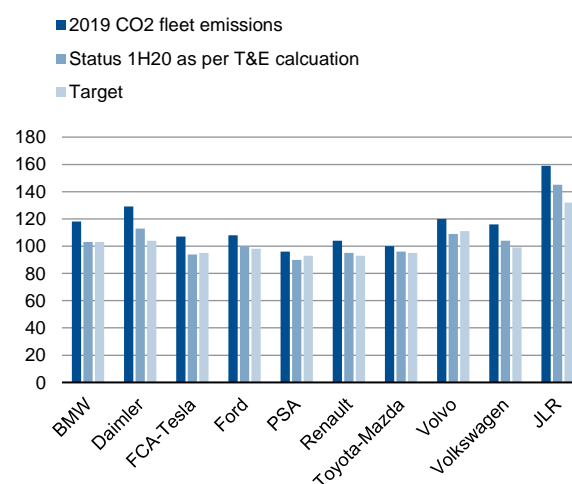
The increased share of electrified vehicles in the mix, largely supported by generous subsidy schemes, has led to a substantial decline in auto makers' fleets average CO₂ emissions. According to recent estimates, new car CO₂ emissions in the first half dropped to 111 g/km from around 122g/km in 2019. The EU's 2020/21 target is 95g/km.

Car makers have effectively achieved a reduction in CO₂ for every new car equivalent to about half of the reductions achieved in 2010-2016 combined, the period before the boom in sales in sport utility vehicles (SUVs) that led to slightly rising average CO₂ emissions in 2017-2019. The significant demand for PHEVs/BEVs in Europe should continue until the end of the year providing further support for OEMs in achieving the emissions targets. OEMs need PHEVs/BEVs to make up around 5%-7% of the European market for that to happen.

With some government subsidies effective only from the middle of 2020, OEMs should benefit from a rising share of electrified vehicles sold in the second half, putting aggregate sales above the minimum needed.

For individual auto makers, BMW AG faces a low risk of being non-compliant with emissions targets in 2020 while rival German OEMs Daimler AG (A/Stable) and Volkswagen still face some challenges in second half, according to initial calculations by Transport & Environment, a European clean-transport association. We see PSA Group – which owns Opel – in the clear while Fiat Chrysler Automobiles' purchase of credits from Tesla Inc. will ensure it avoids penalties.

Figure 7: CO₂ compliance gap European OEMs



Source: Transport & Environment, scale: average fleet emissions (g CO₂/km)

We firmly believe that German OEMs will not risk reputational damage in non-compliance with the 2020 targets and use every strategic option available to meet them. Volkswagen, for instance, has recently announced an emissions-pooling agreement with Chinese joint venture partner SAIC Motor as a back-up if sales volumes of PHEVs/BEVs disappoint during the rest of the year. For more details please see our research piece [Changing vehicle mix vital for car makers to meet 2020-21 EU emissions targets, 21 Oct 2020](#).

Annex II: Related research

Changing vehicle mix vital for car makers to meet 2020-21 EU emissions targets, published Oct 2020, available [here](#)

Electric car sales: Europe takes pole position; Government subsidies still determine demand, published Sep 2020, available [here](#)

Light vehicle sales forecast updated: subsidies insufficient to avoid massive drop, published Sep 2020, available [here](#)

Automotive outlook worsens as Covid-19 pandemic chokes demand in US, developing countries, published Apr 2020, available [here](#)

Synchronised sinking – vehicle sales forecast updated; industry outlook remains negative, published Mar 2020, available [here](#)

Automotive Outlook 2020, published Jan 2020, available [here](#)

Germany's auto sector faces twin challenge Slowdown, EV ramp-up, published Dec 2019, available [here](#)

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