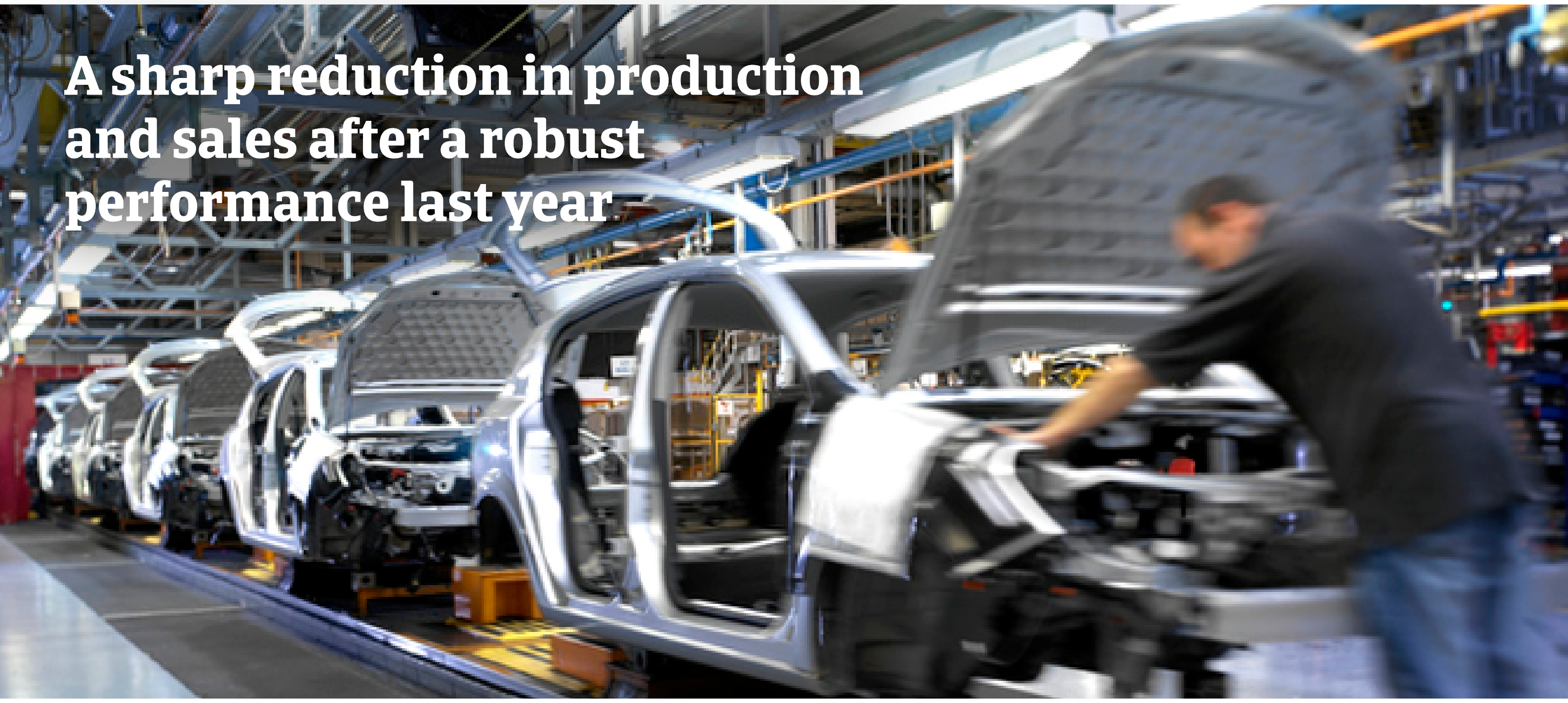
May 2024

Industry trends
Automotive



A sharp reduction in production and sales after a robust performance last year

Global overview

After a 11.1% surge in 2023 we expect motor vehicles and parts output growth to slow down to 0.8% in 2024 and to 1.4% in 2025, due to subdued demand.

Backlogs of orders have returned to normal levels as supply conditions have normalised, while high interest rates weigh on production and sales. In many advanced markets credit conditions remain tight. This explains why consumers are still reluctant to spend, despite decreasing inflation and a gradual recovery in real wages. Supply disruptions emanating from the Red Sea attacks on ships remain a downside risk for the industry.

In the long term, emerging Asian markets will lead global production growth, as low vehicle densities in China, India and other countries leave ample room for growth amid an increasing middle-class.

Currently electric vehicle (EV) sales are facing headwinds. However, we expect global hybrid and EV sales to account for 59% of global light vehicle sales by 2030, up from 10% in 2020.

In the mid-and long-term the US Inflation Reduction Act will support EV production and sales in the US, while in Europe the shift towards electrification will gain momentum in the coming years. In China, the EV transition maintains a strong momentum, and Chinese EV exports are accelerating. However, this has increased the risk of trade frictions. While the US has already raised trade barriers for Chinese EVs and related batteries, the EU Commission has started an investigation into alleged state subsidies for Chinese EVs and is threatening to impose punitive tariffs on imports.

Industry performance forecast

Europe		Asia and Oceania		Americas
Austria (Poor)	Netherlands (Poor)	Australia (Fair)	New Zealand (Fair)	Brazil (Poor)
Belgium (Bleak)	Poland (Poor)	China (Fair)	Phillippines (Fair)	Canada (Poor)
Czech Republic (Fair)	Portugal (Poor)	Hong Kong (Fair)	Singapore (Fair)	Mexico (Fair)
Denmark (Fair)	Slovakia (Fair)	India (Fair)	South Korea (Good)	USA (Fair)
France (Poor)	Spain (Fair)	Indonesia (Good)	Taiwan (Good)	
Germany (Poor)	Sweden (Fair)	Japan (Good)	Thailand (Fair)	
Hungary (Poor)	Switzerland (Poor)	Malaysia (Fair)	Vietnam (Good)	
Ireland (Fair)	Turkey (Poor)			
Italy (Poor)	UK (Poor)			

Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

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Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Industry trends
Automotive

Motor vehicles and parts output	2022	2023	2024*	2025*
Global	4.8	11.1	0.8	1.4
Americas	7.0	6.8	1.3	1.3
Asia-Pacific	4.2	13.1	0.3	1.7
Europe	3.4	12.6	1.5	1.0

Global registration of new light vehicles	2022	2023	2024*	2025*
All types	-0.9	10.8	2.6	3.5
Combustion engine vehicles	-9.1	2.2	-6.4	-5.7
Electric vehicles	61.8	38.6	26.5	25.0
Hybrid vehicles	18.3	37.2	20.4	12.8

Year-on-year, % change /*forecast – Source: Oxford Economics

Strengths and growth drivers

Emerging markets. Low vehicle density and a growing middle-class in emerging markets is driving demand, especially in Asia.

Green transport. New model launches and ranges, decreasing prices, purchase incentives and CO2 reduction policies will drive demand.

New technologies. McKinsey predicts the autonomous driving car market could reach sales of USD 400 billion by 2035.

Constraints and downside risks

Geopolitical risks. The sector relies on a global network of suppliers and is vulnerable to protectionism, tariffs and disruptions.

Advanced market demographics. High vehicle density and aging populations imply a decrease in future demand.

New players. Tech companies and start-ups are disrupting the EV market, creating new competitors for traditional automotive manufacturing.

Supplier obsolescence. Manufacturers of combustion engine vehicle parts will need to change or face extinction.

Atradius

Automotive outlook
Americas

North America: Automotive key figures	2022	2023	2024*	2025*
Production index (real)	7.0	7.9	1.5	1.0
Gross output (sales), (real USD)	-1.9	6.5	0.1	1.1
Investment, (real USD)	6.2	9.9	1.3	3.4
Gross operating surplus (profits), (nominal USD)	12.0	17.2	-0.1	-0.2

Year-on-year, % change /*forecast – Source: Oxford Economics

Industry performance forecast
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Canada
Mexico
USA

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USA

Tight credit conditions weigh on demand

After a 6.5% increase last year, US automotive output growth is forecast to decelerate to 3.1% in 2024 and 0.9% in 2025. After growing 14.6% last year, car sales are expected to increase by only 2.5% annually in 2024 and 2025. Tight credit conditions continue to weigh on automotives demand, despite an upward revision of the consumer spending outlook. On the positive side, order backlogs remain at elevated levels, which should support short-term growth.

Massive government support for EV production, yet a bumpy start

The Inflation Reduction Act (IRA) supports EV production and sales growth and is likely to attract significant new investment. The Act aims to reduce reliance on imports and to encourage domestic investment in areas such as batteries and chips. The new rules include a tax credit for EV purchases, based on the location of battery components and minerals produced domestically or in countries that are US free trade partners like Canada and Mexico.

That said, recent sales of EV in the US have remained below expectations, and some US automotive producers have delayed investments and production plans for EVs for the time being. Cost remains a barrier, as electric vehicles tend to be more expensive than traditional combustion engine vehicles, in particular in the SUV and pickup segments. Infrastructure is also a challenge, as significant investment in a public network of fast chargers and upgrades to the electricity grid are required.

In order to protect US manufacturers, the US government decided in mid-May 2024 to raise tariffs on Chinese EV imports from 25% to 100%. Tariffs on lithium-ion batteries will increases from 7.5% to 25%.

The 2024 elections could be a game changer

Due to the IRA we expect an increasing adoption of electric vehicles in the mid- and long-term. However, if former President Donald Trump returns to the White House and Republicans gain full control of Congress after the November 2024 elections, it is likely that tighter climate regulations and certain subsidies to promote EV production and sales (such as the tax credits) would be repealed.

Automotive outlook
Asia Pacific

Asia Pacific: Automotive key figures	2022	2023	2024*	2025*
Production index	4.2	13.1	0.3	1.7
Gross output (sales), Real USD	6.9	15.1	-0.4	1.5
Investment, Real USD	7.4	16.6	1.0	2.0
Gross operating surplus (profits), Nominal USD	-16.0	2.3	1.2	8.8

Year-on-year, % change /*forecast – Source: Oxford Economics

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China

Subdued domestic demand due to low consumer confidence

After increasing 14% in 2023, we expect Chinese automotive production growth to slow down to 3.6% in 2024 and to 1.2% in 2025. Lower consumer confidence weighs on domestic car sales, which are forecast to level off this year and to increase only 1.3% next year. At the same time export demand is decreasing.

Performance in the EV and hybrid segments remains robust, with local brands increasing their domestic market share and expanding overseas. In the domestic market a tax incentive on EV passenger cars has been extended until end of 2027. However, lower export demand will affect production growth.

High competition in the EV market is an issue

The booming EV market has attracted many new players, leading to increasing competition, and a price war since 2023 has eaten into margins of producers. A lot of smaller businesses are not yet breaking even due to high input costs and are heavily reliant on external funding by investors. Without continuous capital flow, those firms could quickly fail.

China has strong competitive advantages that have pushed it up in global EV export rankings. However, the US has already decided to raise tariffs on Chinese EV imports (see above). The EU Commission has started an investigation into alleged state subsidies for Chinese EVs, threatening to impose punitive tariffs on imports later this year.

India

Inflation and interest rates weigh on demand

Automotive production growth is forecast to slow from a whopping 17% to 3.1% in 2024 and 1.3% in 2025. Order backlogs have decreased, and high inflation and past monetary tightening weigh on demand. That said, domestic EV and related battery production is set to grow in the coming years. A rising middle class provides good sales opportunities in the mid- and long-term.

Japan

Sluggish exports drag down growth

After increasing 14% in 2023, automotive production is expected to contract 4.7% in 2024, mainly due to sluggish demand from the US, Europe and China. China's rapid EV transition and growth in home-grown EV brands will dampen Japanese export opportunities. Domestic car sales are forecast to increase by only 2% this year, as the recovery of consumer spending will remain slow.

Automotive outlook
Europe

European Union & UK: Automotive key figures	2022	2023	2024*	2025*
Production index	4.3	12.7	1.6	0.1
Gross output (sales), (real USD)	9.3	12.8	0.7	0.2
Investment, (real USD)	3.1	5.3	2.3	2.6
Gross operating surplus (profits), (nominal USD)	-9.2	27.9	5.6	-0.1

Year-on-year, % change /*forecast – Source: Oxford Economics

Europe

Higher credit risk for small and medium-sized suppliers

We expect automotive production in the EU and the UK to slow down to 1.6% in 2024 and to 0.1% in 2025. Order backlogs have substantially decreased, and demand conditions remain subdued for the time being. Supply chain disruptions caused by shipping attacks in the Red Sea remain a downside risk for the industry.

As suppliers are dependent on the car manufacturers' sales plans, their prospects are dimming. Purchase figures are lower than expected, making suppliers' plans increasingly uncertain. The era of discounts has also returned, putting their margins under pressure. As a result, we expect insolvencies and payment defaults among suppliers to increase this year.

Additionally, the shift away from internal combustion engines has started to reshape the industry and its competitive structure in Europe. Many Tier 2 and Tier 3 suppliers could lack the technological or financial means, or both, to climb up the value chain, and may be forced to leave the market in the coming years.

EVs in Europe: Chinese competition is a major challenge

Currently high pricing and a lack of charging infrastructure make EVs less appealing, but we expect this segment to grow strongly in the coming years. Chinese manufacturers are increasingly trying to enter the European market with affordable EVs. Lower prices would be a significant incentive to buy an electric car.

The current advantage of Chinese manufacturers compared to their European peers is that they offer cheaper models, and tend to be quicker at rectifying faults and adapting to market conditions. To counteract this, domestic manufacturers would have to offer more EVs in the low and medium price segments in the near future. In order to protect the European car industry, the EU Commission has started an investigation into alleged unfair state subsidies for Chinese EVs, and is threatening to impose punitive tariffs on imports.

Industry performance forecast	
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Belgium	Bleak
Czech Republic	Fair
Denmark	Fair
France	Poor
Germany	Poor
Hungary	Poor
Ireland	Fair
Italy	Poor
Netherlands	Poor
Poland	Poor
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