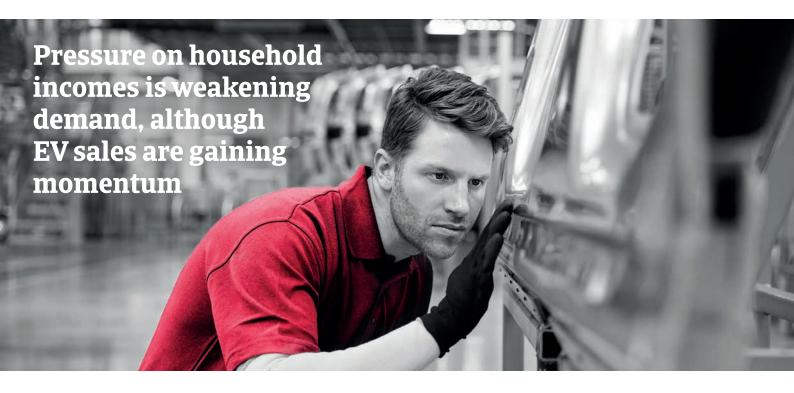
# Industry trends Automotive





### **Global overview**

Automotive output is enjoying a surge this year and is expected to increase 10.6% by the end of 2023. Motor vehicle and parts production accelerated during the first half of the year, largely due to an easing of the supply chain disruptions and working through the backlogs of orders.

However, we expect production growth to slow to 2% in 2024, as weaker demand takes hold of the industry, particularly in

advanced economies. Persistently high interest rates are weighing on automotive production and sales, as household incomes remain under pressure and financing has become more costly. In addition, once the backlogs of orders are worked through, there will be lower demand for automotive production in 2024 and 2025. Downside risks for the sector are tenaciously high inflation, while component shortages could also add strain to automotive supply chains.

We expect global hybrid and electric vehicle (EV) sales to account for 59% of global light vehicle sales by 2030, up from 10% in 2020. The US Inflation Reduction Act will support EV sales in the US, while in Europe the shift towards electrification is accelerating. In China, the EV transition maintains a strong momentum, and Chinese EV exports are accelerating.

Industry perfor	mance forecast				
Europe		Asia and Oceania		Americas	
Austria	Netherlands	Australia	New Zealand	Brazil	Excellent The credit risk situation in the sector is strong /
Belgium	Poland	China	Phillippines	Canada	business performance in the sector is strong compared to its long-term trend.
Czech Republic	Portugal	(A) Hong Kong	Singapore	(A) Mexico	Good The credit risk situation in the sector is benign /
(2) Denmark	Slovakia	[ India	South Korea	© USA	business performance in the sector is above its long-term trend.
France	Spain	Indonesia	Taiwan		Fair The credit risk situation in the sector is average / business performance in the
Germany	Sweden	<b>J</b> apan	(A) Thailand		sector is stable.
Hungary	Switzerland	Malaysia Malaysia	Vietnam		Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
Ireland	Turkey				Bleak The credit risk in the
(\$\text{Line} Italy	<b>⇔</b> UK				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	4.5	10.6	2.0	2.7
Americas	5.7	8.6	2.7	1.2
Asia-Pacific	4.6	10.7	1.8	3.6
Europe	2.6	13.1	1.6	2.3

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

**Emerging markets.** Low vehicle density and a growing middleclass 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.** Level 3 self-driving cars will hit the roads in 2023. McKinsey predicts the autonomous driving car market could reach sales of USD 400 billion by 2035.

Global registration of new light vehicles	2022	2023*	2024*	2025*
Global	-0.7	6.5	4.3	3.8
Combustion engines vehicles	-8.9	-2.0	-5.9	-4.0
Electric vehicles	62.4	30.8	32.4	18.2
Hybrid vehicles	18.5	37.5	23.2	15.7

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

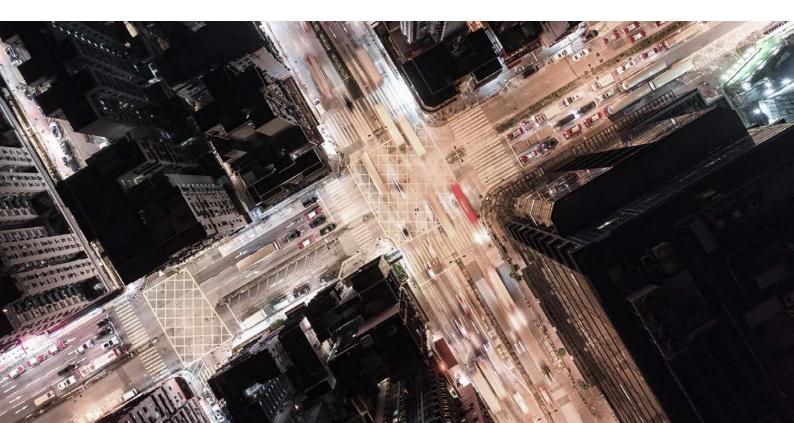
### Constraints and downside risks

**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.



### Automotive outlook Americas



North America: Automotive key figures	2022	2023*	2024*	2025*
Production index (real)	5.6	9.7	2.6	1.1
Gross output (sales) (real, USD)	-0.1	13.3	2.3	1.2
Investment (real, USD)	7.1	9.9	2.2	2.7
Gross operating surplus (profits), (nominal USD)	14.4	17.9	-0.3	1.3

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



## After a surge this year, the USA's automotive growth will be modest moving forward through 2024 and 2025.

We expect automotive output to increase 9.6% in 2023, followed by a 4.3% increase in 2024, supported by a steady recovery in inventories and order backlogs. However, ongoing industrial action in the industry is a major downside risk to this outlook.

Car sales are forecast to grow 13.3% in 2023, slowing to 2.3% in 2024. However, both years represent growth after the 9.6% contraction seen in 2022.

This slowdown in growth is likely to last through much of 2024. However, the longerterm growth outlook is fair, buoyed in large part by growing demand for electric vehicles and government support for green industry.

#### **Inflation Reduction Act**

In the mid-and long-term, the Inflation Reduction Act will support 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 will award credits based on the location of battery components and minerals production domestically or in countries that are US free trade partners. Investment is already underway in battery and EV production in North America, even at the expense of investment in other regions.

Indu	ıstry performance forecast
	Brazil
	Canada
4	Mexico
4	USA
**	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.
	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
200	Poor The credit risk in the sector is relatively high / business

performance in the sector

is below its long-term trend.

The credit risk in the sector is

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



### **Automotive outlook Asia Pacific**



Industry performance forecast

Australia

Asia Pacific: Automotive key figures	2022	2023*	2024*	2025*
Production index	4.6	10.7	1.8	3.6
Gross output (sales) (real, USD)	4.1	11.2	1.3	3.6
Investment (real, USD)	5.7	13.8	1.9	3.2
Gross operating surplus (profits), (nominal USD)	-13.5	1.0	0.2	12.1

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



Although domestic demand remains sluggish amid weaker economic conditions and low consumer confidence, growth in the EV segment is strong.

We expect Chinese automotive output to grow by 9.7% in 2023 and 4.0% in 2024, largely supported by export growth. Domestic car sales are forecast to increase annually by only 0.9% in 2023 and 2024. A severe property market downturn remains a downside risk.

EV growth is robust, with local brands increasing their domestic market share and expanding overseas. The current tax incentive on passenger cars has been extended until end of 2027 for electric vehicles, with a phased reduction in support.

However, the booming of EV market has attracted many new players, leading to increasing competition. 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. Additionally, the EU Commission has started an investigation into alleged state subsidies for Chinese EVs, and is threatening to impose punitive tariffs on imports.

#### Long-term outlook is good

The long-term outlook for production and sales is good, thanks to the enormous market potential. Low market saturation and a growing middle-class provide many opportunities for new sales. In China, the average level of car ownership amounts to about 200 cars per 1,000 people (compared with about 800 cars per 1,000 people in the US).

China Hong Kong India Indonesia Japan Malaysia New Zealand Phillippines Singapore South Korea Taiwan Thailand Vietnam The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend. The credit risk situation in the sector is average / busines performance in the sector is stable. The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend. The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



### Automotive outlook Europe



Europe: Automotive key figures	2022	2023*	2024*	2025*
Production index	2.6	13.1	1.6	2.3
Gross output (sales) (real, USD)	5.3	12.3	1.4	2.3
Investment (real, USD)	6.1	13.0	2.6	4.2
Gross operating surplus (profits), (nominal USD)	-7.7	27.1	3.0	3.9

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

### Europe

Despite lower inflation and a gradual recovery in real wages, increased interest rates continue to dampen consumer spending and investments.

Although we expect automotive output in Europe to increase by 13% in 2023, order backlogs have started to decrease substantially over the past couple of months, and economic conditions remain weak. We expect both production and car sales growth to decrease sharply in 2024. Persistently high inflation and component shortages remain downside risks.

#### Growth of electric vehicles in Europe

So what about electric vehicles, can these drive the industry in the same way as they are predicted to do in the USA and China? Currently high pricing and a lack of charging

infrastructure make EVs less appealing in the short term, but we expect this segment to grow strongly in the mid-term and longer.

The share of hybrid and light EV production in the eurozone is forecast to reach 80% of total automotive production by 2027, compared with a 50% share of this segment globally.

However, favourable subsidies under the US Inflation Reduction Act have raised competitiveness concerns. And the shift away from internal combustion engines will reshape the industry and its competitive structure in Europe. This poses a major challenge for the bulk of small-and medium-sized suppliers.

Industry performance forecast
Austria
Czech Republic
Denmark
France
Germany
Hungary
[ Ireland
(2) Italy
(2) Netherlands
Poland
Portugal
Slovakia
Spain
Sweden
Switzerland
Turkey
© UK
Excellent



The

is stable

The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.

The credit risk situation in the sector is average / business performance in the sector

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.

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



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