Industry Top Trends Update

Autos

Pent-up demand, strong pricing will limit downside risks

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What's changed?

Modest pressure on auto sales forecasts. Despite strong demand, we expect some pressure on volume recovery compared with our 2021 base case (14%-16% improvement from 2020) because of the combined impact of electronic components shortage (chips) and unexpected supply-chain disruptions in 2021.

Supply chain disruptions will delay improvement. Semiconductor-related chip shortages continues to hamper supply, which will lead to a significant cash flow burn in the second quarter and delay recovery in cash flow adequacy metrics by up to six months to mid-2022.

Upside from electric vehicles (EVs). The Biden administration announced a $174 billion commitment to accelerate EV deployment, including point-of-sale rebates, tax incentives, and 500,000 chargers by 2030. As a result, EV sales could exceed our base-case of 10% of U.S. light vehicle sales by 2025 (versus barely 2% in 2020).

How is recovery taking shape?

Volumes will recover by late 2023. The outlook is improving, but we expect annual U.S. light vehicle sales to remain below 2019 levels through 2023. The global semiconductor shortage will likely cut into 2021 production levels. This still supports our recovery assumption for 2023.

Profits benefit from strong prices. Our 2021 and 2022 EBITDA estimates are not severely affected because higher prices on more profitable light trucks will support pricing and partially offset the current demand/supply imbalance. The impact of inflation (chip shortages and rising metal prices) will be transitory.

Credit metrics should stabilize to pre-pandemic levels by 2023. Most issuers will look to preserve liquidity, maintain prudence on reinstating dividends, and limit large debt-financed acquisitions.

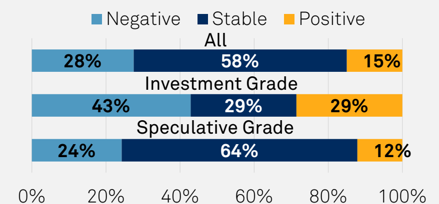
What are the key risks around the baseline?

Higher commodity, freight, and labor costs. If the current inflationary phase is not transitory (extends beyond mid-2022) it could be difficult to pass through higher costs to customers in 2022. If inflation does not normalize by mid-2022 it could limit stable outlooks and add downside risks to several ratings.

Economic headwinds. New virus strains, rising gas prices, or slowing housing starts could keep consumers cautious and curtail automotive demand recovery.

Electrification is a risk for market positions and cash flows. Traditional automakers (Ford, GM) will reduce the EV market share gap versus Tesla but battery costs will remain a challenge. If EV adoption exceeds our base case by 2025, aggressive model launches will add headwinds for traditional automakers' profits and for several powertrain-focused auto suppliers' volumes.

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	7	33	40
Downgrades	0	0	0
Upgrades	0	7	7

Ratings data as of end-June, 2021

COVID-19 Heat Map

Automotive	
Estimated Recovery To 2019 Credit Metrics	2023
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
15% to 25%	25% to 40%	10% to 25%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
10% to 20%	10% to 20%

Latest Related Research

- High-Flying Battery Makers Have Much To Win And Lose, June 20, 2021
- Global Heavy Truck Sales Forecasts: Declines in APAC Offset Growth in U.S And EMEA, June 10, 2021
- Global Auto Sales Forecasts: The Recovery Gears Up, May 11, 2021