November 2024

Industry trends
Automotive

A modest rebound is on the cards, while trade frictions affect the EV segment

Global overview

After a 11.2% surge in 2023 we expect motor vehicles and parts output growth to slow down to 0.5% in 2024. In key markets such as the US, China and Europe consumers have been reluctant to spend money, in particular on 'big ticket items' such as vehicles.

We expect the automotive industry to grow by 2.1% in 2025, supported by looser monetary policies and a gradual recovery in consumer spending. However, tariffs imposed by the next US administration are 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.

Long-term outlook for EV sales still good, but trade frictions loom

Currently electric vehicle (EV) sales are facing headwinds in the US and Europe. 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 Europe the shift towards electrification will accelerate in the coming years. In China, the EV transition maintains a strong momentum, and Chinese EV exports have grown. However, this has increased the risk of trade frictions. Both the US and China have recently imposed punitive tariffs on Chinese EV imports. For the time being the uncertain outlook for EV demand and production could benefit producers of hybrid vehicles, notably in Japan.

Industry performance forecast

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

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Industry trends
Automotive

Motor vehicles and parts output	2023	2024*	2025*	2026*
Global	11.2	0.5	2.1	1.3
Americas	6.5	1.7	1.1	2.2
Asia-Pacific	13.1	1.4	2.6	0.3
Europe	13.0	-3.1	1.9	2.6

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

Global registration of new light vehicles	2023	2024*	2025*	2026*
All types	9.7	0.3	5.5	1.6
Combustion engine vehicles	2.8	-8.2	-4.1	-6.7
Electric vehicles	35.4	23.6	25.9	18.5
Hybrid vehicles	25.5	19.5	20.3	6.8

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.

Automotive outlook
Americas

Automotive production	2023	2024*	2025*	2026*
Brazil	-8.4	9.0	3.7	8.0
Canada	19.7	-10.4	5.2	10.4
Mexico	8.2	-0.7	0.7	1.4
United States	6.4	3.5	0.8	1.5

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

Industry performance forecast
Brazil
Canada
Mexico
USA

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USA

Car production and sales have decelerated

After a 6.4% increase last year, US automotive output growth is forecast to decelerate to 3.8% in 2024 and 0.8% in 2025. After growing 14.6% in 2023, car sales are expected to increase by 2.8% in 2024 and by 3.7% in 2025. Tighter car loan rates, higher costs for insurance, maintenance and repair, and a softening labour market weigh on automotives demand. That said, interest rate cuts by the Fed in the coming months should provide some relief. OEMs and suppliers recorded healthy margins in 2022 and 2023. However, those have since decreased due to higher material and labour costs and sales incentives to push demand.

If the incoming Trump administration implements its fiscal policy proposals (substantial tax cuts, including reducing the corporate tax rate to 15%), this would increase the profitability of automotive companies. However, any introduction of substantial tariffs on US goods imports could disrupt the global supply chains that automotive producers rely on, increasing the costs of imported components and materials.

A bumpy start for EV sales

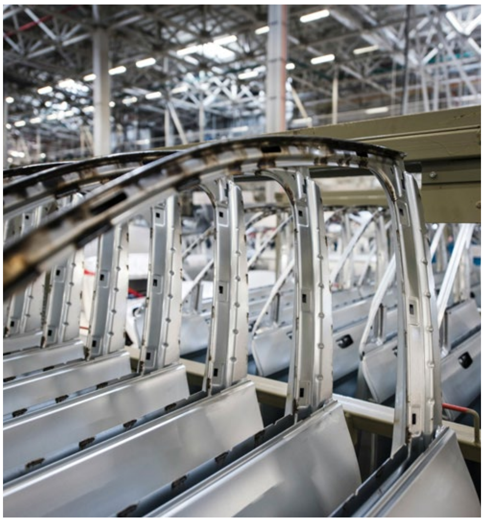
The Inflation Reduction Act (IRA) strongly supports domestic EV production and sales with subsidies for local production and tax credits for EV purchases. That said, US sales of EVs remain below expectations. They are predicted to grow by only 9.5% year-on-year in 2024 (compared to a 24% increase globally). Some US automotive producers have delayed investments and production plans for EVs for the time being. Despite tax credits for EV buyers, cost remains a barrier as EVs continue to be more expensive than traditional combustion engine vehicles.

Infrastructure is also a challenge, as significant investment in a public network of fast chargers and upgrades to the electricity grid are required. The incoming Trump administration will most probably abolish the federal tax credits for EV purchases. A full rollback of the IRA seems improbable, as a several Republican-ruled states benefit from related investments.

Mexico

Automotive producers show stable margins

After an 8.2% increase last year, Mexican automotive production is forecast to contract by 0.7% in 2024, mainly due to lower demand from the US. In 2025 a modest 0.7% growth is expected. Automotive producers' margins have been good over the past 12 months, and they continue to enjoy a stable outlook. Most businesses belong to strong parent companies with a good financial performance. Looking ahead over the coming years, the growth of Mexico´s automotive sector should be fuelled by the nearshoring of US, Asian and European producers.



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Automotive outlook
Asia Pacific

Automotive production	2023	2024*	2025*	2026*
China	14.1	5.2	1.0	-0.4
India	16.5	6.6	1.7	3.0
Japan	13.6	-3.6	5.9	-0.9
South Korea	14.2	-1.6	0.1	2.0

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

China

Subdued domestic demand and tariffs weigh on the industry

After increasing 14% in 2023, we expect Chinese automotive production growth to slow down to 5.2% in 2024 and to 1.0% in 2025. Lower consumer confidence is weighing on domestic car sales, which is now forecast to contract by 3% this year. The EU and other countries have recently imposed import tariffs on Chinese EV exports, which could affect local production and exports. It is still unclear to what extent the tariffs will drive production localisation towards Europe. There is still the option for a settlement of the trade dispute, but also the possibility that China retaliates with its own set of import tariffs.

In the domestic market performance in the EV and hybrid segments remains robust, with local brands increasing their market share. A tax incentive on EV passenger cars has been extended until the end of 2027. EV car registrations are forecast to grow by 25% in 2024 and 19% year-on-year in 2025, while sales of combustion engine cars continue to contract (down 19% in 2024).

High credit risk for smaller private-owned businesses

Late payments are common in the Chinese automotive sector, reinforced by the strong negotiating power of manufacturers vis-à-vis suppliers. The booming EV market has attracted many new players, which has led to fierce competition. A price war that has been going on since 2023, further intensified in 2024, putting margins of producers and suppliers under pressure. Businesses are being forced to step up their R&D and launch new products to improve competitiveness. Both traditional and emerging players keep cutting prices or launching limited-time promotions in order to win more market share. A lot of smaller private-owned businesses in the EV segment 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.

India

Lower growth in 2025, but a good long-term outlook

Automotive production growth is forecast to slow from a whopping 17% to 6.6% in 2024 and 1.7% in 2025, due to lower consumer spending. That said, demand for SUVs remains robust, leading to order backlogs. 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.

Industry performance forecast
Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Phillippines
Singapore
South Korea
Taiwan
Thailand
UAE
Vietnam

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Automotive outlook
Europe

Automotive production	2023	2024*	2025*	2026*
France	12.0	-11.0	11.2	1.9
Germany	13.1	-4.0	2.4	-0.1
Italy	8.0	-15.7	2.0	12.2
United Kingdom	20.1	10.0	-1.1	2.4

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

Europe

Higher credit risk for SME suppliers

We expect automotive production in Western Europe to contract by 3.9% in 2024, after growing 13% last year. In many markets consumers are reluctant to make major purchases such as cars. Additionally, labour markets are increasingly showing signs of softening. We expect a modest pick-up in consumer spending growth next year, supported by further monetary easing. This should lead to a modest 1.6% rebound in the Western European automotive sector in 2025.

As suppliers are dependent on the car manufacturers' sales plans, their prospects have dimmed. Purchase figures are lower than expected, making suppliers' plans increasingly uncertain. We observe shrinking margins and increasing payment delays and insolvencies in major markets like Germany, Italy and the UK. 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.

Tariffs on automotive imports imposed by the next US administration are a downside risk for the industry, in particular for German carmakers and suppliers.

EVs in Europe: Chinese competition is a major challenge

Current high pricing and a lack of charging infrastructure make EVs less appealing for Europe's consumers. This is a particular concern for automotive producers that need to meet the EU´s 2025 CO_2 emissions targets. However, despite the current slowdown, we expect the EV segment to grow strongly in the coming years.

The current advantage of Chinese EV 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 has imposed punitive tariffs on Chinese EV imports, based on alleged unfair state subsidies.

EU tariffs may slow the momentum of Chinese imports, giving European producers a window to launch a new generation of more competitive vehicles. However, there is the downside risk that retaliatory tariffs on EU imports would hurt European manufacturers targeting the lucrative Chinese premium segment. Chinese OEMs could also accelerate their plans to localise production in Europe. Some of them were already considering localising EV production in, or close to, the EU to reduce transport costs and simplify supply chains even before any tariffs were imposed.

Industry performance forecast
Austria
Belgium
Czech Republic
Denmark
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland
Portugal
Slovakia
Spain
Sweden
Switzerland
Turkey
UK

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