April 23, 2020

Global Auto Sales Plummet Further in March (With Worse Still to Come)

- **Global auto sales dropped by over 40% y/y (nsa*) in March following February's 20% y/y decline. This rivals the worst sales month during the Global Financial Crisis.**
- **Europe drove the decline in global auto sales as March was peak-pandemic for major regional auto markets. Western European sales as a whole were down by 53% y/y, with the steepest declines in Italy, France and Spain at 85%, 72%, and 70% y/y respectively.**
- **North American auto markets leaned into the dip with a regional drop of 38% y/y even though lockdowns took effect only in the second half of the month. Canada saw the steepest regional decline (-48% y/y) as it was the earliest and most aggressive with its policy measures.**
- **Latin American auto sales also posted broad slides. A regional decline of 28% y/y masked retrenchments in the order of 40% across most economies except Brazil which was slower in its policy responses.**
- **Asia Pacific has begun to reopen its economies with Chinese auto sales down by "only" 48% y/y in March following an 80% y/y collapse in February sales. The region as a whole was down by 38% y/y in March as some economies including Japan, Australia, and South Korea saw less severe declines.**
- **With COVID-19 declared a global pandemic only in mid-March, auto sales around the world are set to plunge further in April before a gradual recovery begins as economies begin re-opening.**
- **Despite unprecedented policy efforts by governments around the world, a tepid return of consumers is likely as a recovery in confidence—and in some cases income—will take more time.**

A MONTH LIKE NO OTHER

The world arguably awoke to the devastatingly enormous challenge it faced in the month of March. Though it seems ages ago, the World Health Organisation only declared COVID-19 a global pandemic on March 11th as it had been largely viewed as an Asian phenomenon through February. By early March, several European countries were already facing escalating virus cases, while it would take a couple more weeks before North American countries realised they were not immune (chart 2).

The Great Lockdown—a term recently coined by the IMF—came into effect in waves around the world over the course of the month. Governments across all major economies mandated the shutdown of all businesses except those deemed essential and sent its citizens home. This set off a reinforcing cycle

*All numbers reported are not seasonally adjusted (nsa), unless otherwise indicated (sa).

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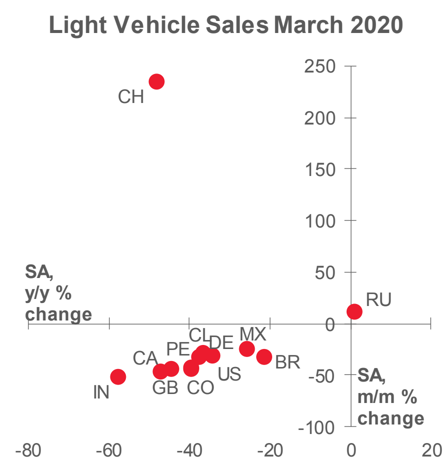
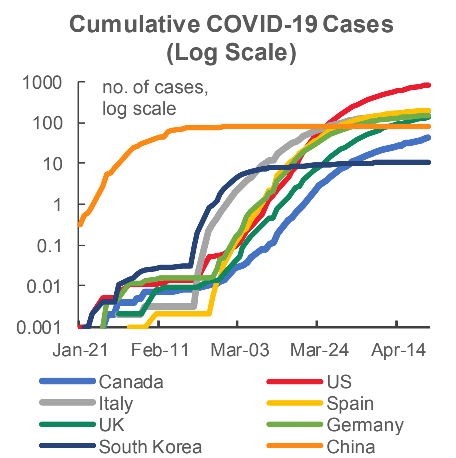
Chart 1



Sources: Scotiabank Economics, national automotive associations.

Chart 2



Sources: Scotiabank Economics, Johns Hopkins University.

of demand-and-supply shocks through the global economy as consumption and production have abruptly halted. It has propagated through all channels including financial markets and oil prices (compounded by other vulnerabilities).

Consequently, the global economy faces the worst deterioration in its outlook since the Great Depression (chart 3). Scotiabank Economics expects global GDP will contract by 2.8% in 2020 before a rebound of 5.9% next year. In Canada, the contraction will be even steeper with an estimated decline of 9.1% in GDP in 2020 owing to the additional oil price shock before a 6.5% rebound next year (chart 4). Preliminary GDP data for the month of March showed a massive 9% drop relative to February even though lockdown measures were only implemented in the second half of the month. As global economic data starts trickling in, the readings are consistent: the impact of the pandemic is broad-based and the scale is unprecedented.

The global contraction is expected to be sharpest in the second quarter of 2020. Across much of the industrialized world, economic activity is expected to fall in the 30–50% range in the second quarter. Activity is expected to begin returning to normal in the third quarter of 2020, except in countries where containment measures were aggressively deployed in the first quarter (essentially the Asian economies), where activity should resume in the second quarter.

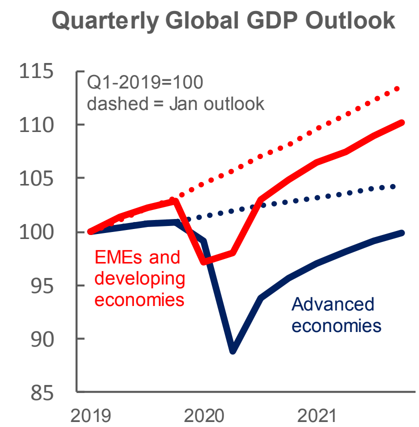
Despite some signs of cautious optimism, there is still potential for a further deterioration in the global economic outlook. New COVID-19 cases have been leveling off—or even declining—in some major economies, while the Chinese economy is showing signs of a tentative rebound. But the IMF recently flagged the economic risks of a potentially longer outbreak in 2020 and/or another outbreak in 2021 before a vaccine is developed and deployed (chart 5).

VENTURING BACK OUT

Even as gradual re-openings of economies begin, auto sales will face a variety of dampening forces. Consumers will be cautious. After weeks of physical distancing, it is unlikely they will re-emerge in droves to retail outlets including dealerships despite new safety measures expected to be introduced. China provides a glass half-full, half-empty picture: with the re-start of its economy, March auto sales picked up by 234% m/m relative to February, but it was still down by 48% y/y. Lifting of government-imposed lockdowns by no means guarantees consumers will return rapidly.

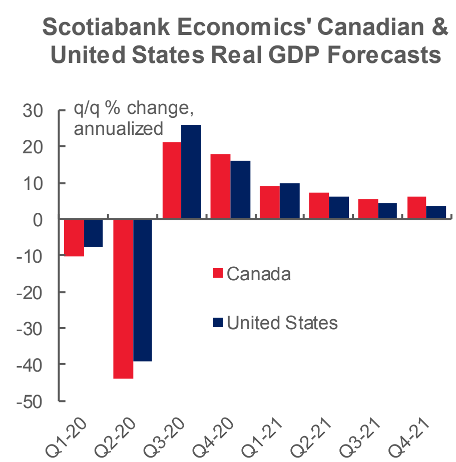
Employment status—at least temporarily—will also impact auto sales in the coming months. The pace and scale of job losses around the world have been staggering: unemployment claims in the US, for example, are estimated to have increased by 22 mn in the past month, erasing all gains since the Global Financial Crisis. At the time of writing, Canada has seen almost 7 mn applications for its unemployment benefits on a working population of about 20 mn. Admittedly, the eligibility for claims has been broadened in many countries, while many applicants are assumed to still maintain a tie to their employers. Therefore, such claims do not directly translate into unemployment rates, but the latter will nevertheless be high. Scotiabank Economics estimates unemployment rates of 10.9% and 9.3% for Canada and the US respectively this year and expect they will remain elevated relative to pre-crisis levels through 2021 (chart 6).

Chart 3



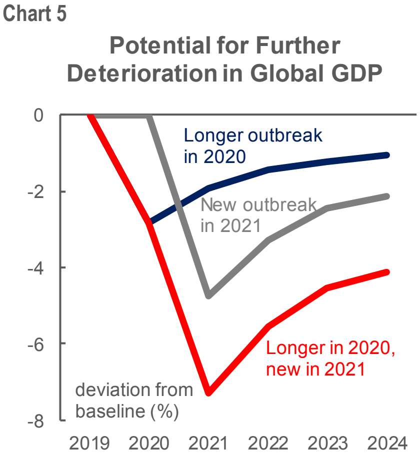
Sources: Scotiabank Economics, IMF.

Chart 4



Note: Forecast as of April 17th, 2020
Source: Scotiabank Economics.

Chart 5



Sources: Scotiabank Economics, IMF.

The health of household finances may also curb non-essential consumption. Despite unprecedented fiscal transfers—many directly to households—a significant proportion of households will still likely face income losses that are not fully offset by government transfers. The impacts will be more pronounced in markets where household debt levels were elevated heading into the crisis. In Canada, for example, high household debt levels, along with increasing cost of essentials such as housing and food, likely had a dampening effect on auto sales despite decent labour dynamics last year. Lower debt-servicing ratios should help with debt consolidation, but will not likely drive stronger consumption in the near-term.

TURNING THE LIGHTS BACK ON

Automakers will similarly face headwinds as they re-start production. Most automakers around the world all-but-stopped production both on safety grounds and due to supply chains disruptions. Wards Automotive estimates a 30% m/m (nsa) decline in North American auto production for March, while forecasting a more serious retrenchment of 85% m/m in April before production starts ramping back up. The profile is consistent with major auto makers in Europe and North America signalling their intention to re-start production in May with new health and safety measures in place. However, Chinese auto production has still not picked up substantially as of March data (chart 7).

Further supply chain disruptions could still be anticipated as plants re-open. As we laid out in an earlier report, the pandemic has exposed vulnerabilities in global supply chains and just-in-time manufacturing around the world. In fact, many auto facilities initially halted production because of supply chain disruptions well-before the pandemic hit locally. An estimated 80% of global auto production relies on Chinese auto parts. There is potential for continued break-downs in supply chains as periodic shutdowns may re-emerge throughout the year in parts of the world, creating temporary bottlenecks. Furthermore, solvency distress among parts producers could lead to permanent disruptions that take longer to resolve.

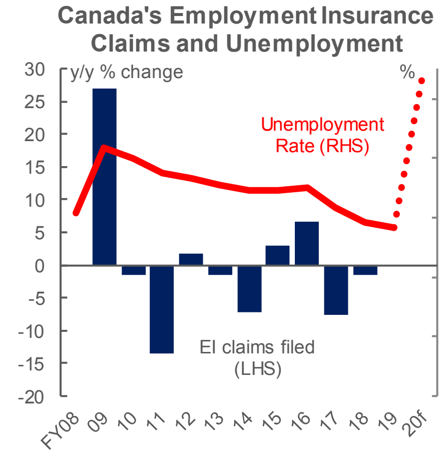
Dampened global demand will also impact production volumes. We revised down our global auto sales estimates with a 20% y/y decline pencilled in for 2020 (with a more detailed discussion in last month's report). Notably, these estimates are fluid, while deviations around the average are driven by factors including the severity of the outbreak, the stringency of policy-induced lockdowns, as well as pre-existing domestic vulnerabilities. At this stage, there is still substantial downside to this guesstimate.

EXPENSIVE DEALS

Auto dealerships around the world will also be impacted. Whether they were forced to shut down, opted to do so, or simply faced a dearth of customers, few were selling vehicles on any scale in March. Unlike gradual economic slowdowns, the unexpected nature of the current pandemic has resulted in vast numbers of vehicles sitting unsold on dealer lots. Wards Automotive reported an increase of 4.5% m/m in March inventory with days' supply leaping to 95 days—65–69 days range is typical for March (chart 9).

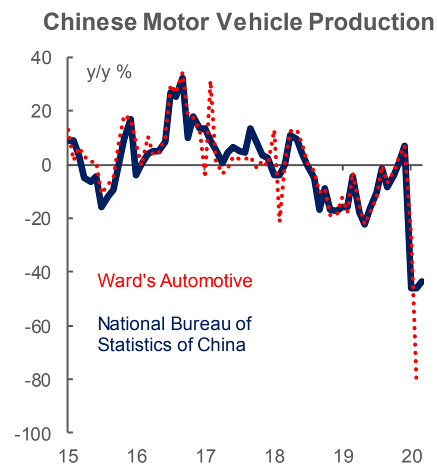
Meanwhile, significant dysfunction in financial markets around the world—at least in the early part of March—caused a spike in financing costs for many auto players. Despite substantial policy rate cuts by all major central banks, liquidity

Chart 6



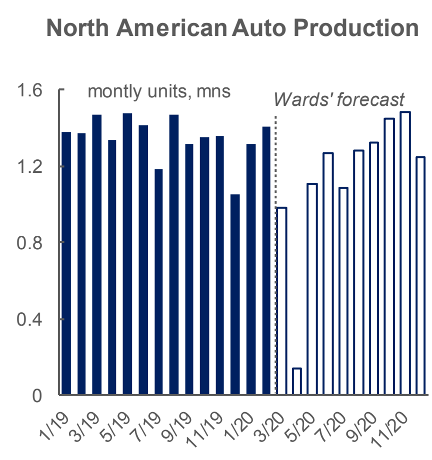
Sources: Scotiabank Economics, ESDC, CEIC, Statistics Canada. *2020 EI forc not shown.*

Chart 7



Sources: Scotiabank Economics, CNBS, Ward's Automotive.

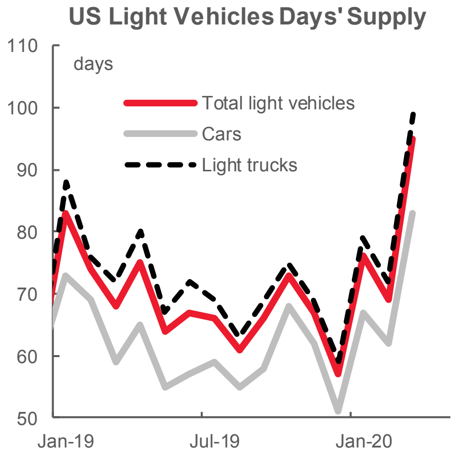
Chart 8



Sources: Scotiabank Economics, Ward's Automotive.

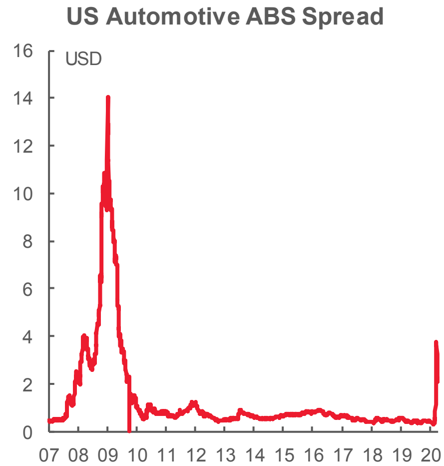
and risk premiums, as well as perceived counterparty risks, drove up funding costs for the auto sector in major markets as the pandemic took hold (chart 10, for example). This phenomenon was explored in the Canadian context here. Since then, monetary policy actions have begun to restore market function though premiums—albeit lower—still persist as policy measures continue to work through markets (chart 11). Similar developments were observed during the Eurozone debt crisis, the Global Financial Crisis, and prior shocks adding one more layer of complexity to an already-challenging environment.

Chart 9



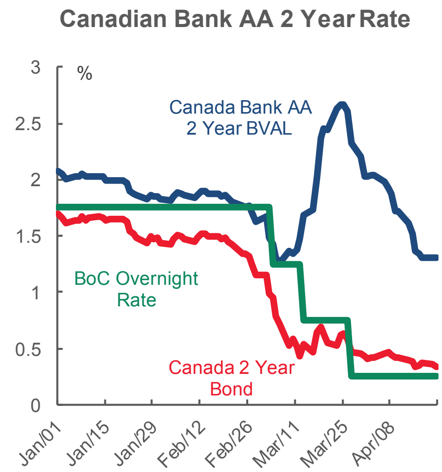
Sources: Scotiabank Economics, Ward's Automotive.

Chart 10



Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

A VIRTUAL TOUR AROUND THE GLOBE

China's auto sales foretell the future for other markets around the world. The COVID-19 outbreak took off in January, precipitating a near two-month shutdown across much of the country before activity started returning to life in March. Auto sales in March accelerated accordingly with a 234% m/m (sa) increase, but were still down substantially by 43% on a year-over-year basis (chart 12). Despite an apparent containment in the outbreak and a re-opening of the economy, substantial weakness still persists.

A rapid rebound for China—or other markets down the road—is not imminent, particularly as it re-awakens to a substantially weaker external environment. Meanwhile, the risk of a second wave of infections persists.

The slowdown in Japanese auto sales has been surprisingly more muted. Its March auto sales were down by 9% y/y after a similar drop in February. However, the country did not initially experience significant community spread, unlike many of its neighbours. It did not fully lock down its economy until early April with cases escalating still in mid-April. This suggests a further deterioration in auto sales can be expected in the coming months.

Indian auto sales contracted sharply by 58% y/y. A lock-down was announced in early March and has been extended through early May. This suggests further weakening in sales in April at least.

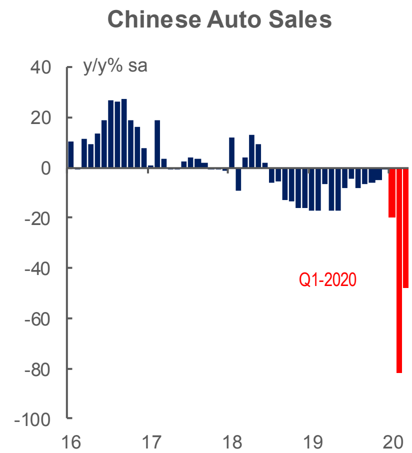
Europe saw the steepest retrenchment in auto sales in March. Europe was in the throes of the pandemic in March with most major economies shutdown. Not surprisingly, Western European sales were down by 53% y/y with the sharpest declines in Italy, France, and Spain (85%, 72%, and 70% y/y respectively). The contractions in Germany and the UK were relatively more modest—at 38% y/y and 44% y/y respectively. While March declines broadly reflect the stringency of policy-induced lockdowns, as economies re-open the recovery will be much slower for countries that entered the pandemic on weak footing (i.e., Italy), while Germany's recovery will be impacted by second-round effects from dampened global auto sales given the importance of auto production to its economy.

North American auto sales took an early plunge in March. Even though the lockdowns took effect only in the second half of March (and even closer to the close for many States), auto sales were down by 48% y/y and 38% y/y for Canada and the US respectively. A much more severe deterioration can be expected in April auto sales as dealerships will have been shut down for most of the month.

Mexican auto sales also dropped substantially by 25% y/y in March. Mexico had been slower to shut parts of its economy, while there remains some uncertainty on the extent of the outbreak in the country. The oil price shock however has taken a substantial toll on Mexico's economic outlook with several rating agencies downgrading their outlooks in recent weeks. Near term auto sales declines will be dominated by pandemic-related factors, while a medium term recovery will be impacted by domestic fundamentals.

Other Latin American economies also confronted serious declines in March auto sales. The pandemic was an 'equalizer' with drops in the range of 35–45% across Argentina, Chile, Colombia and Peru despite domestic differences. Only Brazil saw a less-severe auto sales drop in March at 22% y/y, likely owing to a laxer policy approach to containment. Many in the region will face additional pressures related to their external positions as emerging markets have faced broad-based credit tightening with financial markets rushing to safe havens, while challenges will be particularly exacerbated for commodity-exporting countries.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Table 1 — Global Auto Sales Outlook (mns units)

	2010-18	2018	2019	2020f	Mar-20, SA % m/m	Mar-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
Total Sales	**70.6**	**78.9**	**75.0**	**59.5**	**-22.5**	**-39.9**	**-25.1**	**47.1**
North America	**18.6**	**20.6**	**20.2**	**14.9**	**-33.6**	**-38.0**	**-13.2**	**13.5**
Canada	1.81	1.98	1.92	1.34	-47.0	-46.9	-20.0	1.05
United States	15.5	17.2	17.0	12.6	-32.1	-37.9	-12.7	11.4
Mexico	1.20	1.43	1.32	1.00	-24.6	-25.5	-10.9	1.06
Western Europe	**12.9**	**14.1**	**14.1**	**11.1**	**-50.5**	**-52.9**	**-27.1**	**6.6**
Germany	3.2	3.4	3.6	2.9	-32.6	-37.7	-20.3	2.2
United Kingdom	2.3	2.4	2.3	1.8	-44.5	-44.4	-31.0	1.3
Eastern Europe	**3.4**	**3.2**	**3.0**	**2.5**	**-7.7**	**-13.0**	**-6.0**	**2.7**
Russia	2.1	1.8	1.8	1.4	10.8	1.3	-2.1	1.8
Asia	**31.6**	**37.0**	**33.8**	**27.9**	**46.2**	**-38.1**	**-33.6**	**21.7**
China	19.5	23.7	21.4	17.5	234.9	-48.4	-45.4	12.1
India	3.3	4.0	3.6	2.9	-51.9	-57.8	-25.5	1.7
Japan	5.1	5.3	5.2	4.3	-2.9	-9.3	-10.2	4.6
South America	**4.3**	**4.0**	**3.8**	**3.1**	**-33.9**	**-27.8**	**-11.1**	**2.6**
Brazil	2.94	2.48	2.67	2.10	-32.9	-21.8	-8.1	1.92
Chile	0.34	0.42	0.37	0.30	-28.9	-36.5	-19.4	0.25
Colombia	0.26	0.25	0.26	0.24	-43.8	-39.7	-7.3	0.15
Peru	0.16	0.15	0.15	0.15	-43.0	-40.5	-11.5	0.09

Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

Table 2 — North American Production Outlook

	2010–18	2019	2020 Mar.	2020f	2021f
	(millions of units, annualised)				
North American Production*	**16.3**	**16.8**	**15.5**	**13.0**	**14.6**
Canada	2.3	1.9	1.5	1.2	1.4
United States	10.7	10.9	10.2	8.9	10.0
Mexico	3.3	4.0	3.8	2.9	3.2

*Includes light, medium and heavy trucks.
Sources: Ward's Automotive Reports, Statistics Canada, DesRosiers Automotive Consultants Inc.

Table 3 — Provinces Motor Vehicle Sales Outlook (thousands of units ann.)* **

	2010–18	2018	2019	2020f	2021f	Mar-20, SA % m/m	Mar-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
Canada	**1,809**	**1,984**	**1,922**	**1,342**	**1,474**	**-47.0**	**-46.9**	**-20.0**	**1,054**
Atlantic	**133**	**130**	**136**	**92**	**98**	**-43.8**	**-43.3**	**-18.2**	**361**
Central	**1,141**	**1,285**	**1,243**	**885**	**977**	**-32.5**	**-33.0**	**-13.6**	**3,284**
Quebec	432	450	454	310	341	-38.3	-38.0	-16.0	1,164
Ontario	709	835	789	575	636	-29.3	-30.1	-12.4	2,120
West	**535**	**565**	**540**	**365**	**400**	**-38.6**	**-33.7**	**-11.5**	**1,479**
Manitoba	54	66	53	40	42	-33.0	-26.0	-6.5	148
Saskatchewan	53	49	46	30	32	-36.5	-33.1	-12.3	126
Alberta	235	230	227	135	149	-38.1	-32.2	-9.3	639
British Columbia	193	220	214	160	176	-40.9	-37.1	-14.9	566

*Includes cars and light trucks. **Scotiabank estimates.
Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.