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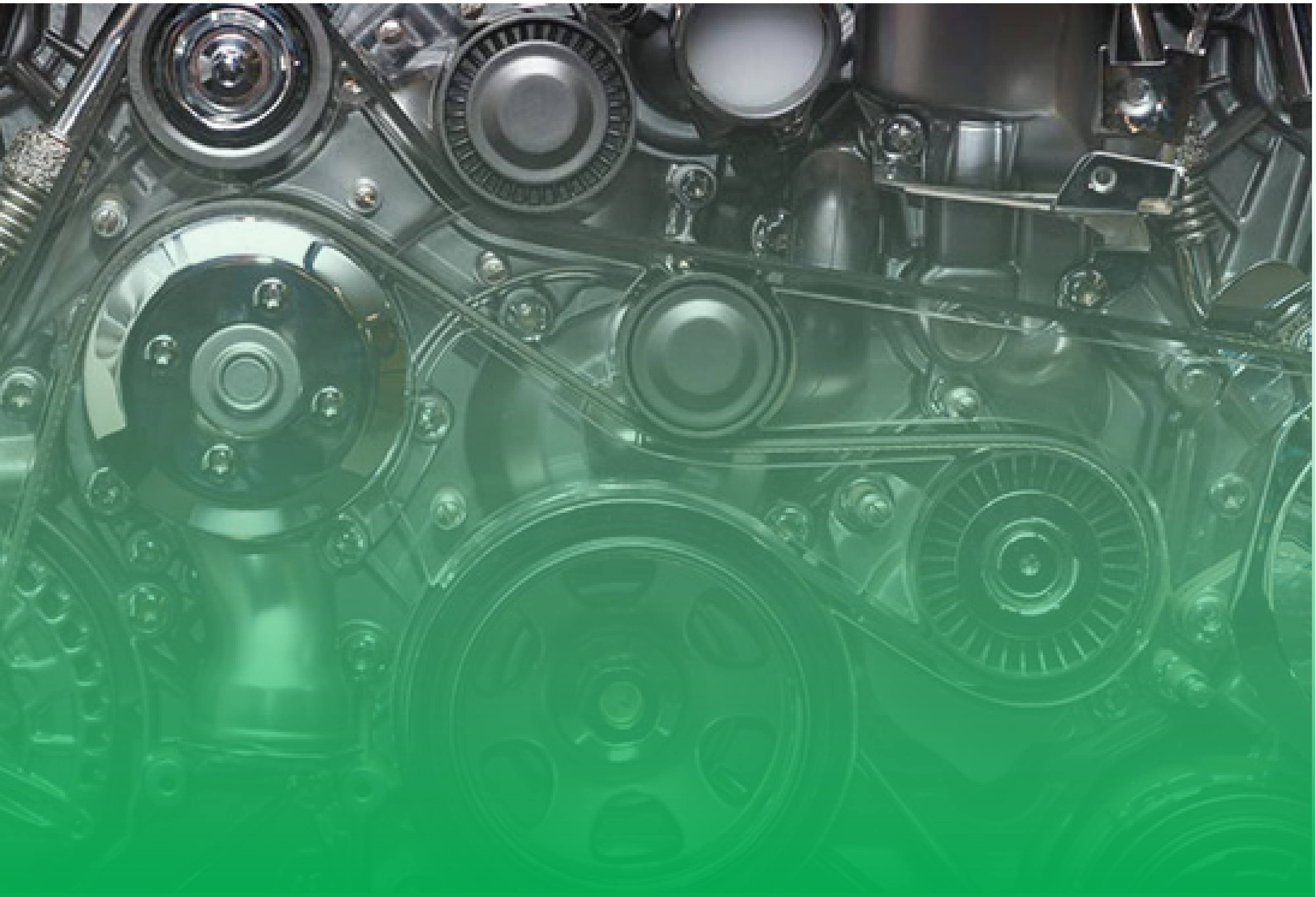
COVID-19 Pandemic Impact on Automotive Suppliers

IHS Markit survey | March 2020



COVID-19 Pandemic Impact on Automotive Suppliers – IHS Markit survey

The Automotive Supply Chain and Technology team at IHS Markit conducted a survey among executives at automotive suppliers across all key regions to capture the perception of suppliers regarding the impact the COVID-19 pandemic has on their manufacturing operations and the supply chain.

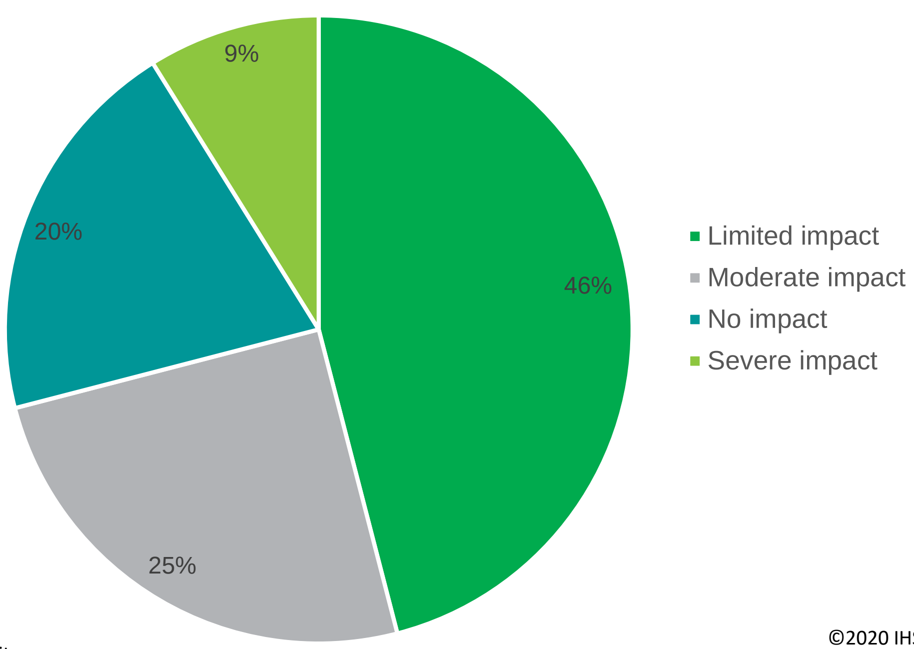
The survey results clearly highlight that one third of suppliers reported moderate to severe impact from fast spreading global pandemic, but there are still high levels of uncertainty among parts manufacturers on business continuity and the business outlook. The weakening of vehicle demand due to OEM plant shutdowns and availability of raw material due to logistics issues were listed as two of the major concerns.

Impact on suppliers' operations

The rapid outbreak of COVID-19 has left the entire automotive supply chain grappling with unforeseen challenges. These major issues include OEM shutdowns, output reduction, lack of sufficient labor and raw material shortages.

Nearly half of the respondents in the survey said that COVID-19 pandemic has had a "limited impact" on their operations, for example a minor reduction in output due to reduced OEM demand, with greater resilience in Asia (China and Japan mainly) where 46% of respondents claimed the disruption was contained. At the opposite side of the spectrum, Europe emerged as the region most impacted according to the survey with 64% of respondents claiming a severe impact is European-based. A severe impact is defined as a major event such as a plant shutdown. North America is so far positioned in between Asia and Europe in terms of impact according to survey respondents, which suggests the mood of the supply base follows to an extent the statistics on the outbreak as Asia seems to be recovering while Europe is currently still at the center of the outbreak.

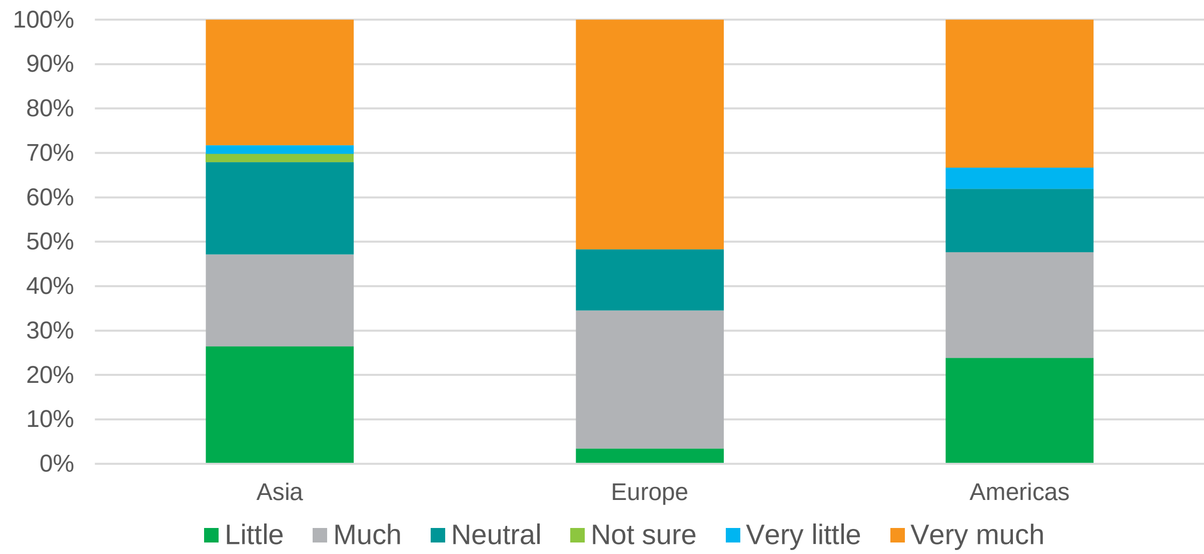
How impacted is your company from the COVID-19 pandemic?



Source: IHS Markit

Even if suppliers are not currently experiencing a disruption of any type, there is still significant concern around COVID-19 pandemic's impact on supplier operations and business outlook. Around 60% of suppliers answered that they are either concerned or very concerned about disruption in the automotive supply chain. It is not surprising that 83% of European respondents answered concerned or very concerned, as Europe is deemed by many to be the new epicenter of the COVID-19 pandemic.

How concerned are you about supply chain disruption?



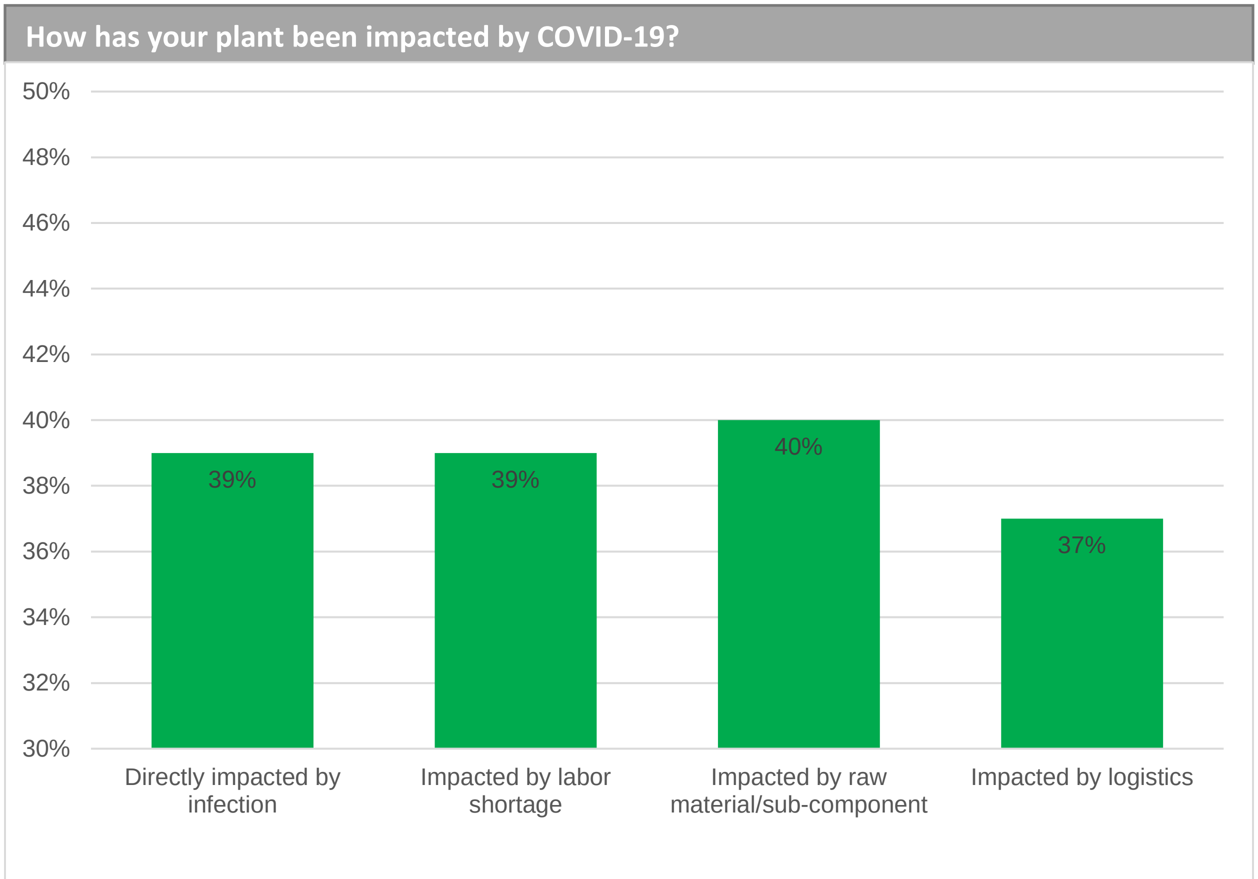
Source: IHS Markit

What are the issues that impacted supplier plants?

Nearly 39% of the suppliers surveyed have had at least one or more plants directly impacted by COVID-19, as employees were found to be infected by the virus. Around 42% of these respondents were from Asia, 39% from Europe and 15% from North America. Some of these infected plants have already resumed production, according to the survey results. Quite a few respondents, some from Wuhan where the COVID-19 outbreak began, said that although none of their employees tested positive for COVID-19, they had to shut down plant as employees were unable to come to the plant due to either government regulations or by the employee's decision to not go to the plant. A large amount of respondents also said they were contemplating shutting down plants due to fall in demand and automotive downturn.

The survey results show that a higher number of suppliers were impacted by labor shortages, compared to being directly impacted by COVID-19 through an infection among workers. Nearly 39% of the respondents said that at least one or more of their plants were impacted by the issue of labor shortage following the COVID-19 outbreak. Suppliers said labor shortages were faced as there were travel restrictions and mandatory quarantines in place. Again, a few plants have already seen labors come back and have reached some level of production. Some respondents indicated they did not feel the impact of labor shortage, as demand has also decreased over the past few months. Among the respondents who said they have face labor issues in at least one of their plants, 45% were from Asia, 40% were from Europe, and 10% were from the Americas.

We did not only ask questions about how many supplier plants have been closed due to the COVID-19 pandemic, but it is also important to know why these plants are closing. The three main reasons we found that supplier plants are closing were because of workers directly impacted by the COVID-19 virus, an impact on labor shortage, and an impact of not having enough raw materials or sub-components.



Around 40% of suppliers who responded to the survey said that they have witnessed raw material shortage, which has impacted one or more plants. Some respondents have indicated that so far they have not faced any issue with supplies from their sub-suppliers, but could see a growing risk of raw material shortage if the situation continues for the next two to four weeks. Among the respondents who have faced raw material and supply chain issues, 49% were from Asia, 24% were from Europe, and 22% were from the Americas.

A similar number of respondents, around 37%, said their plants were impacted due to logistics issues such as road transport blockage and stuck containers at port, following the COVID-19 outbreak. During the time this survey was conducted, many cities and states across many regions were under full or partial lockdown, which made transportation a challenge. Among the respondents who faced logistical issues, 54% were from Asia, 30% were from Europe, and 11% were from North America.

What are automotive suppliers most concerned about?

At the time this survey was conducted, the biggest concerns among suppliers were ‘weakness in demand’ and ‘availability of raw material’ and a large amount of the supplier executives we reached out to were worried as to when demand will come back. Most of the respondents thought the fast outbreak of the COVID-19 pandemic was impacting demand fundamentally, a concern that is now emerging in China, where automotive production is slowly getting back to normal, meaning that the key concern is how to get demand back and when will this happen.

Restrictions on logistics movement for goods and people is also becoming an increasing concern for suppliers in Asia as OEMs’ manufacturing operations there are less impacted currently by government lockdowns or OEMs’ decision to shutdown operations. An executive at a supplier in South Korea said the lockdown in Europe left him wondering how and when the logistical problems will emerge in its operations in Asia. A large supplier in Brazil said it is impacted by shortage of imported components from Asia and Europe and a supplier in the United States said issues with the component supply from South Korea and Italy may impact its production in approximately 8 weeks.

While no one knows how long the COVID-19 pandemic is going to affect the automotive supply chain, a common response started to arise among respondents and it is that at this point, certain regions of the world are still operating or restarting operations as normal. We received numerous responses that even though there are plant closures in North America and Europe, cities like Wuhan have reopened operations. While completely rerouting a supply chain halfway around the world certainly causes headaches for supply chain managers, we found cautious optimism among our respondents that there will be a way for them to continue supplying to OEMs.

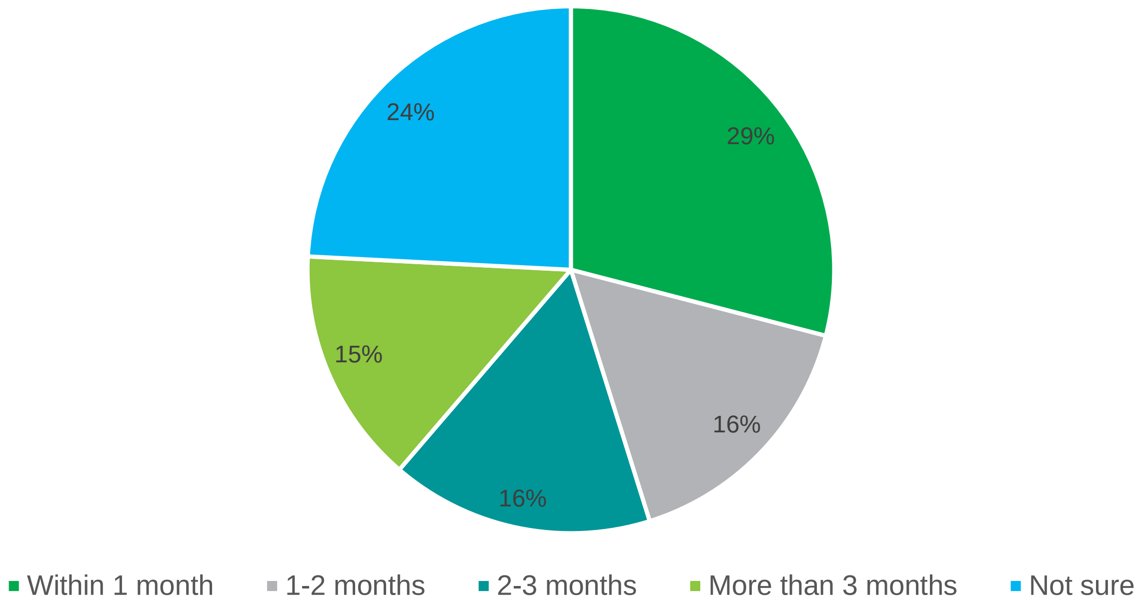
The risk of production shutdowns at customer (OEM) plants is another major concern among suppliers. They are particularly worried about “extended shutdowns” at automakers’ facilities. A large amount of respondents from suppliers in the United States said they are “very concerned” about how long the situation will last. Few expressed concerns that it could last until the summer and that they are very uncertain about how the next few months will pan out. Our survey revealed that some suppliers in the United States have already noticed less bookings over the past few weeks. However, suppliers are aggressively preparing contingency plans and are ready to implement new strategies as needed.

According to the survey, the level of concern among suppliers is extremely high. When asked about how concerned they are regarding supply chain disruptions, the majority of them (around 60%) expressed either “much concerned” or “very much concerned” although around 20 % of the executives said their concern is “little”. Interestingly around 17 % of the suppliers said they are “neutral”. Region-wise, the level of concern is almost same across Europe, China and North America. Among the total respondents who said they are “very concerned”, 34 % were from Asia, 34% were from Europe and 32 % from North America. Only a few suppliers in the survey said they are “very little” concerned, and only one said they are “not sure”.

How long will this last?

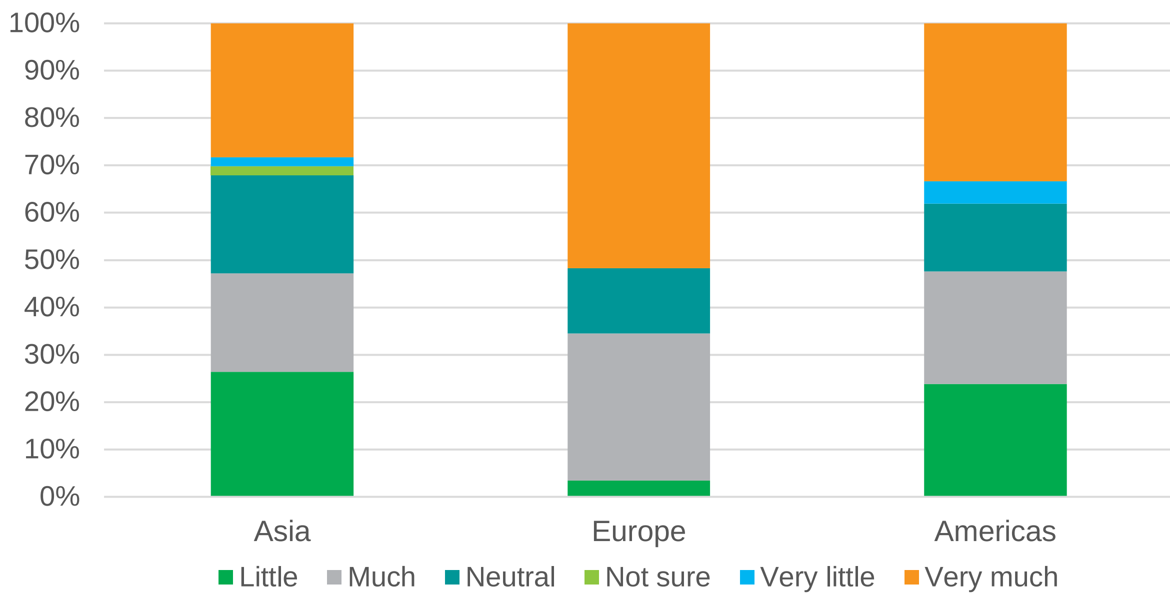
The golden question circling the globe right now is simple, “How long will this last?”. According to suppliers that responded to IHS Markit’s survey, the current business environment is highly uncertain. Suppliers say the COVID-19 pandemic is increasingly reducing visibility into when customers' plants will be fully operational and is also creating the potential for additional supply chain disruptions. One question we asked suppliers was “How long will it take for impacted plants to return to full scale production". The survey results showed a cautiously optimistic response, with 45% of respondents thinking that their impacted plants will return to full scale production in less than 2 months. On the contrary, 15% of respondents in our survey believe that it will take more than 3 months for impacted plants to return to full scale production. This is of course on the proviso that the virus outbreak is under control, lockdowns are being eased and demand also returns.

How long will it take for impacted plants to return to full scale production?



Source: IHS Markit

How concerned are you about supply chain disruption?



Source: IHS Markit

Survey Methodology:

The Supply Chain and Technology team at IHS Markit ran the survey ran from Monday 16th of March to close of business Thursday 19th of March 2020. The survey yielded a total of 124 respondents from the following regions: 53 respondents from Asia, 29 respondents from Europe, and 42 respondents from the Americas. The 124 respondents represent companies with over 1,500 manufacturing sites on a global basis in all regions. The component sector representation is broad and includes a meaningful and relevant representation from Powertrain, Interior, Chassis, Electronics, Electrical and E-mobility.

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