IHS Markit

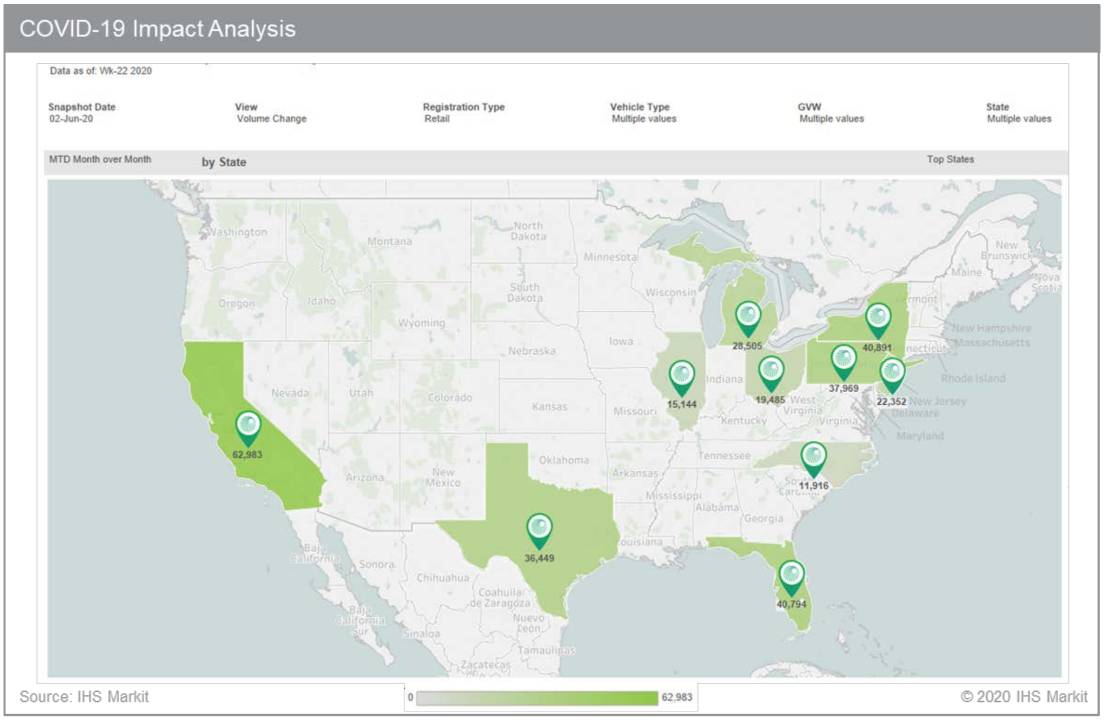
Volume 10 | 03 June 2020

Automotive Rapid Response Report | COVID-19

US market rapid reporting

91%	113%	209%	75%
National mtd increase	California mtd increase	New York mtd increase	Florida mtd increase

- **A strong 91% month-to-date (mtd) increase as May concludes in national retail registration volume, representing a greater than 500,000-unit improvement**
  - Non-luxury crossover utility vehicle (CUV)/sport utility vehicle (SUV) segments improved 111% mtd, representing 48% of the national volume improvement.
  - Non-luxury cars almost doubled in volume mtd with 95% improvement, contributing 20% of the national volume increase.
  - Pickup segments improved 53% mtd, 15% of the national volume improvement.
- **110% improvement in mtd performance for May in the top 10 retail volume states, highlights include:**
  - 113% improvement mtd in California, largest volume increase across all states with over 62,000 units.
  - 209% improvement mtd in New York, volume increase of over 40,000 units.
  - 75% improvement mtd in Florida, volume increase of over 40,000 units.
- As states continue to lessen their restrictions, we expect the positive registration momentum to continue with many manufacturers reducing summer downtime to increase production capacity
  - Focus will shift to identifying and addressing inventory shortfalls on fast-turning, high-margin vehicles.



Global economic overview

36.4

U.S. PMI, up from 27.0 in April

30.5

Eurozone PMI, up from all-time low of 13.6 in April

28.9

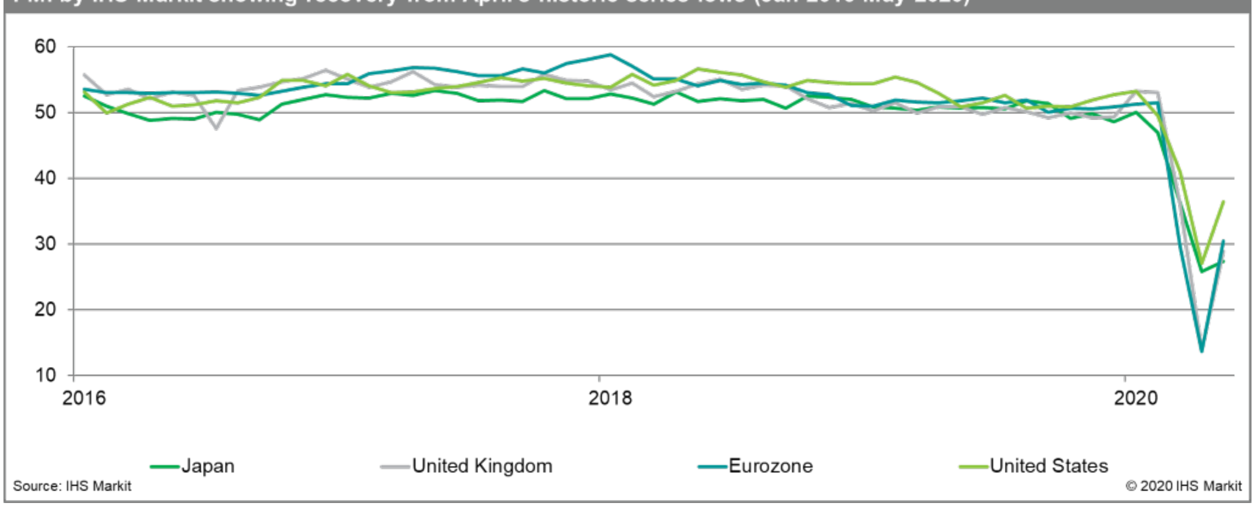
UK PMI, up from 13.6 record level in April

24.7

Japan manufacturing PMI, down from 25.8 in April

- As containment measures have begun to ease across the world, economic activity has improved from the historic lows experienced in April. Broad improvements in the composite output index were underscored by sharp improvements in service sector activity as previously shuttered business began to cautiously reopen.
- US private sector firms reported a slightly slower rate of contraction of activity in May. Adjusted for seasonal factors, the IHS Markit ***US Composite PMI Output Index posted 36.4 in May, up from 27.0 in April***. Businesses remained pessimistic towards the outlook over the coming year as the pandemic's impact was extended. Although some became more confident in a pickup later this year, helping lift the survey's future expectations index from April's all-time low.
- The IHS Markit ***Eurozone Composite PMI rose from an all-time low of 13.6 in April to 30.5 in May***, resulting in a third successive monthly fall in output. Jobs consequently continued to be cut at an unprecedented rate, easing only modestly compared with April's record contraction. Similar rates of job shedding were seen in services and manufacturing, as firms in both sectors sought to cut capacity in line with weaker demand.
- The ***UK composite PMI registered 28.9 in May***, remaining deep in contractionary territory despite ***rising from the 13.8 level recorded in April***. On a positive note, the index measuring business expectations for the next 12 months continued to improve from the record low seen in March. Survey respondents nonetheless widely commented on concerns that customer demand would take a long time to recover to levels seen before the public health crisis.
- ***Japan recorded the weakest recovery from April PMI lows*** among surveyed countries, as composite index registered only 27.4 compared with the 25.8 recorded last month. The rate of decline in services has improved slightly as restrictions have eased in most prefectures. However, global declines in demand for goods is continuing to devastate Japanese manufacturing as economic activity has continued to fall below April's then-record lows.

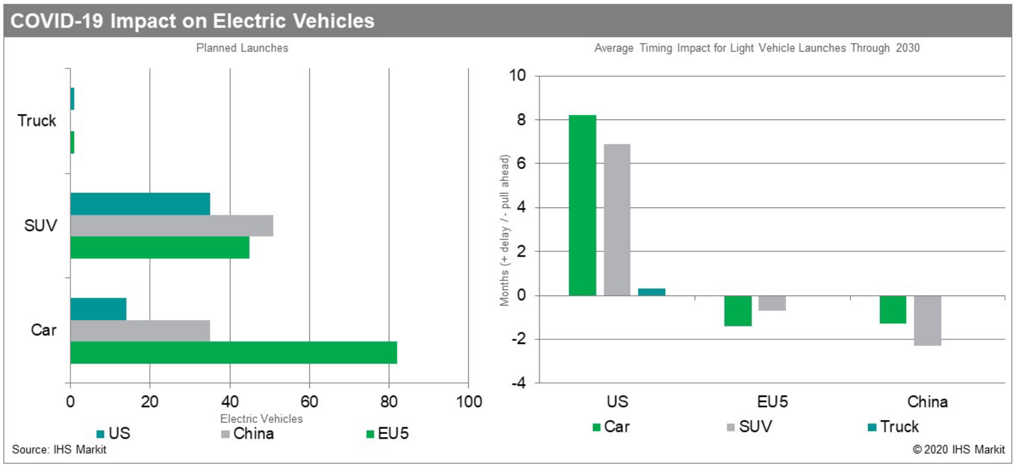
PMI by IHS Markit showing recovery from April's historic series lows (Jan 2016-May 2020)



Global automotive overview

128	86	50
Electric Vehicle launched planned across the EU5	Electric Vehicle launched planned for China	Electric Vehicle launched planned for US

- In addition to the immediate impact to vehicle sales and production, COVID-19 has many manufacturers revisiting their electric vehicle launch plans. Observing the ***top electric vehicle markets through 2026*** – several markets' activities are being pulled forward, in the US we are seeing significant program delays. Local legislation and customer adoption rates vary, identifying markets where resources can be conserved in the near-term and applied to other product development or reinvested in the core business.
- ***Europe's zero emissions future remains intact*** through recent events, the European Commission has not made any revisions for the 2020 CO_2 targets. The commissions' preference is to use COVID-19 as an opportunity to invest in the recovering economy, ***by providing incentives only for electric vehicles (EV)***.
- ***China's effort to stimulate the automotive industry***, encourage purchases mainly of New Energy Vehicles (NEV), the state and cities have modified their regulations and purchase incentives. The government ***extended NEV tax exemption and subsidies for two more years (through 2022)***. Cities are also providing subsidies for the purchase of NEVs and/or of China 6 vehicles - some requiring the scrappage of an older vehicle.
    - Additional measures include some local governments increasing of the quota of license plates and the delay of the enactment of the China 6 emission standard, now delayed 6 months to assist manufacturers and dealers reduce affected inventories.
- Recently, the ***US finalized the revision to the national fuel economy standards rule***, requiring ***a 1.5% annual improvement*** in fuel economy through 2026 compared to 5% previously set annual improvement. During the COVID-19 pandemic, there has been a significant decrease in gasoline prices, resulting in a longer break-even period of the additional cost electrification adds to a vehicle purchase.
- Overall, OEMs have to balance rapid reduction of costs while protecting investment capital for research, development and technology initiatives that could position them for success in the market long-term. Lines are being re-drawn into what constitutes a minimum-viable product and we will likely see more pairing back of nice-to-have features, rather than required-by-legislation functionality. As manufacturers continue to implement their recovery plans, it will be interesting to see if the United States continues to diverge from China and Europe, potentially leaving the United States behind.



*Based on data received through 2 June 2020 and 15 May 2020 Light Vehicle Sales Forecast release.

Access more information and resources