

Automotive Industry

A supply chain shock of a different color and magnitude

Industry Overview

Low risk to estimates from Suez Canal/Red Sea

Attacks on vessels crossing the Red Sea have renewed fears of supply chain disruptions for the Auto sector. We recognize that the considerable Covid induced supply chain stress of 2021-2022 has raised concerns of a repeat, but we don't see current events in the same light. Instead, the current disruption appears to be creating about a two-week lag in shipping of some components to Europe. Admittedly, there may be some incremental risk from higher costs, but this is very different from a global shortage of critical components. So far, Tesla and Volvo are the only companies that have announced production stoppages; other companies have indicated they have been able to manage without production disruptions.

Longer routes may = temporary disruption & higher costs

Since November 2023, ships navigating the Suez Canal have been subject to repeated attacks from the Houthi tribe as a derivative of the Israel-Hamas War. The attacks have driven shipping companies to redirect vessels to avoid crossing the Red Sea and Suez Canal. This means the route that links Europe to Asia now must circumnavigate Africa. This alternative, longer route (which takes 14 days more, on average) is disrupting manufacturing activities, mostly in Europe, due to delayed deliveries of some components. The impact is likely to be short-lived given that its resolution is tightly linked to the rearrangement of supply chains to factor in the longer navigation route. The alternative route comes with incremental costs. Higher fuel prices, extra days of space rented, and higher shipping rates are going to be a negative on companies' P&Ls but, putting this in perspective, transportation costs are ~57% lower than Covid levels.

Tesla stops production, suppliers the most exposed to risk

So far, the only company in our coverage that has announced disruptions from the vessels' re-routing is Tesla, which is expected to halt production at its Berlin facility from January 29th to February 11th. We would expect that other companies with a large footprint in Europe, mainly suppliers, may be negatively affected. Yet, we think that risks to estimates are low as we perceive this disruption as temporary and driven by the longer time needed to circumnavigate Africa.

North America production is relatively safe

Focusing on North America, we see little ramifications to Auto production from the Suez Canal disruptions. In fact, North America manufacturers are mostly supplied from vessels navigating the Pacific Ocean rather than crossing the Suez Canal. There is potential for a cascade effect to trigger indirect impacts from shortages of European-made components. However, at the current stage we see a low risk of this happening.

A symptom of larger issues/risk

Although we can make a straight-forward assessment of current events, we can't rule out a potential broadening of the conflict in the Middle East. This could create additional issues with risks in that: 1) a larger war could destabilize the global economy, and 2) oil prices could increase. We view both of these risks as negative for the auto industry.

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