**IS THE GLOBAL AUTOMOTIVE INDUSTRY DYING?**

A crisis-struck economy?:

The coronavirus pandemic has certainly sent shockwaves of uncertainty and gloom rippling across the world within a span of four months. Four months is all it has taken for a novel viral attack to turn entire established economies upside down in major functioning parts of the globe. Almost every single country is grappling to bring down the human life cost of COVID-19 while struggling with the results of various assessments of the economic ramifications that may as well be a throwback to the 1930s Great Depression.

The reverberations of the economic shutdown is being experienced all across various industries as they try and keep themselves afloat in such a time of panic during this pandemic. The surviving industries are helpless but to watch their counterparts shut down and become non-functional, if only temporarily. While all sectors are taking a hit, the automotive industry is prepared to take upon itself the fall of the economic burden.

Plunging sales and halted production have already forced some of the bigger players in the global automotive field to buckle up and rethink their plans about their organizations for the future. The most notable among such industry leaders has been the German trinity – BMW, Mercedes, and Volkswagen. Top executives from these companies are reportedly in talks with German Chancellor Angela Merkel on finding the best way out of this current economical crisis that they are in, for the good of the organizations and the country as well.

While the immediate area of attention was the factories that were being shut down in the country and across the continent of Europe, other widely ranging concerns included the survival and retention of component manufacturing units and the raising of funds in order to bring them up and functioning once the situation had come to pass.

A pre-pandemic analysis:

As 2019 came to an end, the automotive industry had already begun to show signs of slowing down and shrinking – here is why.

While the shrinking was expected, it came on much faster than anticipated by various experts around the world; such a massive shift can potentially bring about a massive economic threat, if not many.

The automotive sector represented approximately 20% of the GDP slowdown in 2018, and an estimated 30% of the annual drop in global trade, according to data collected and processed by the International Monetary Fund. Termed to be a sharp downturn in production and sales throughout the year of 2018, projections had called for a similar turn of events – a sharp decline through 2019. The IMF has pegged the industry as a major factor in overall lagging industrial output, and a prolonged contraction period of the field would only affect the global economy for a longer period, both in the short and long runs.

The decline has been firmly pegged to certain markets reaching maximum automobile saturation. This incident, now known as peak car, has reached an alarming situation – the headwinds on automotive supply and demand, in tandem with peak car, threaten to pull the sector even lower in terms of financial and economic crises.

A post-pandemic analysis:

Revised global vehicle outlooks consider a significant proportion of more than six hundred thousand vehicle units being dropped from India – the global automotive industry decline is seen to deepen as the pandemic prolongs all over the world.

China, the world’s largest automotive market, is seen to be working towards recovery of the economy of the automobile market, and a rebound has been observed in vehicle sales as of March 2020. Other regions around the globe, on the other hand, continue to face a worsening pandemic situation every day, let alone a significant portion of the global market declining in its own losses and mishaps. Lockdowns are being administered by most countries to prevent the spread of the novel coronavirus strain, and original equipment manufacturers (OEMs) of the automotive industry and the suppliers across the Americas, Europe, and parts of Asia have progressively suspended operations at various production locations owned by them.

Fiat’s European factories have already closed down temporarily in lieu of the prolonged and prevalent pandemic, with over 4% of Europe’s total output being shut down as its Italian factories – that produced 600,000 units annually – are temporarily closed down. Volkswagen is seen to follow the routine as well, but its main factory at Wolfsburg has been reported to be running for the time being. Various other car manufacturers located in the continent have also halted production in the UK, with many more to follow suit. OEMs continue to work with their suppliers and vendors to ensure availability of parts in accordance with earlier planned volumes, despite the suspension of automotive manufacturing.

Automotive manufacturers based in the USA had relied on drawing down existing inventory, but now are faced with running out of parts and labour lockdown. The eventual production loss is estimated to have a significant impact on the US economy and automobile sales, with over a loss of 90,000 jobs, and USD 7 billion in earnings vanishing, every week.

Thanks to the novel coronavirus outbreak in the continent, the Trump administration has promised an unprecedented USD 2 trillion recovery package, in a deal with the Senate’s members – both Democrats and Republicans. A share of these funds is expected to be focused on supporting the auto sector, both directly and indirectly. The exponential rise of COVID-19 cases in the Americas over a span of few days has led to shutdown expectations extending well into the year. Assuming that the recovery package can help boost the industry’s demand during the second and third quarters, with expectations of recovery by the fourth, the new-car demand is expected to drop by a margin of 17%, or three million vehicle units.

Industry versus pandemic:

The resultant rapid increase in unemployment rates around the world has led to the lowering of global GDP growth projections, or in some cases, wiped out completely. A global economic recession has been declared in light of what is prevailing, and discretionary purchases of new vehicle units are expected to slow down significantly across the world. China’s automotive manufacturers have resumed partial operations as the rate of infection dropped significantly in the country, including major players such as Toyota, which has reopened one of its plants in Guangzhou completely.

Following the recession that occurred in the bleak years of 2008 and 2009, policy makers have begun to target the stimulation of vehicle demand as a way to give the industrial economy a head start post-pandemic, by offering cash incentives in exchange for old cars; this is popularly referred to as Cash for Clunkers, a scrappage scheme to help jump start the automotive economy.

A revised global vehicle outlook is well in progress for the year of 2020, with the prolonging negative economic impact from the virus outbreak being faced by almost all global auto manufacturers. Research indicates that an estimated eight million vehicle units are being dropped across the three major automotive markets – China, North America, and Europe. This revised outlook takes into consideration a highly probable emerging scenario – the prevalence of COVID-19 and its impact continuing well into 2020. Global vehicle sales outlooks now point at an approximate drop of eighty million vehicle units – a steep 11.1% decline since 2019.

Weak demands, oversupply, and a looming recession that threatens the future of all markets around the globe – will automotive manufacturers survive the oncoming financial crisis? Only time will tell.