

Worldwide Auto Sales Will Slump More Than Expected In 2019

May 6, 2019

Key Takeaways

- After a weak first quarter, we foresee sales of light vehicles in China in 2019 at best replicating 2018 performance of -3%.
- This is a deterioration from our previous forecast of a low but positive 1%-2% growth rate.
- In the European market, we expect flat light vehicle sales in 2019, compared to our previous expectation of moderate growth of +1%-2%.
- We see auto sales declining by 3.6% in 2019 in the U.S., and subsequently stabilizing at around 16.3-16.5 million per year, down from our previous expectation of 16.8 million.

Following a weak quarter for light vehicle sales in China--the world's largest single auto market--S&P Global Ratings believes it will be challenging for the market to beat its 2018 performance. We had expected a 1%-2% increase in the number of light vehicles sold in China in 2019, but we now forecast a 3% decrease at best, replicating the market's performance in 2018. The Chinese government has cut VAT for the manufacturing sector to 13% from 16% from April 2019, prompting some automakers to lower prices, but we see this move as too timid to support a strong recovery in the remainder of the year.

Light vehicle sales were down by 11% in China in the first quarter of 2019 versus the same period in 2018, with sales of passenger vehicles down by 14% (see chart 1). We believe that the decline in auto sales in late 2018 and early 2019 is correlated with tight financial conditions in China (see chart 2). Downward pressure on economic growth will persist, despite financial conditions having eased in China. Our economists expect China's growth to stabilize around the mid-year, forestalling the need for further major stimulus (see "Economic Research: Asia-Pacific Quarterly Forecasts: Tougher Trade Winds Through 2019," published April 3, 2019).

PRIMARY CREDIT ANALYST

Vittoria Ferraris
Milan
(39) 02-72111-207
vittoria.ferraris
@spglobal.com

SECONDARY CONTACTS

Nishit K Madlani
New York
(1) 212-438-4070
nishit.madlani
@spglobal.com

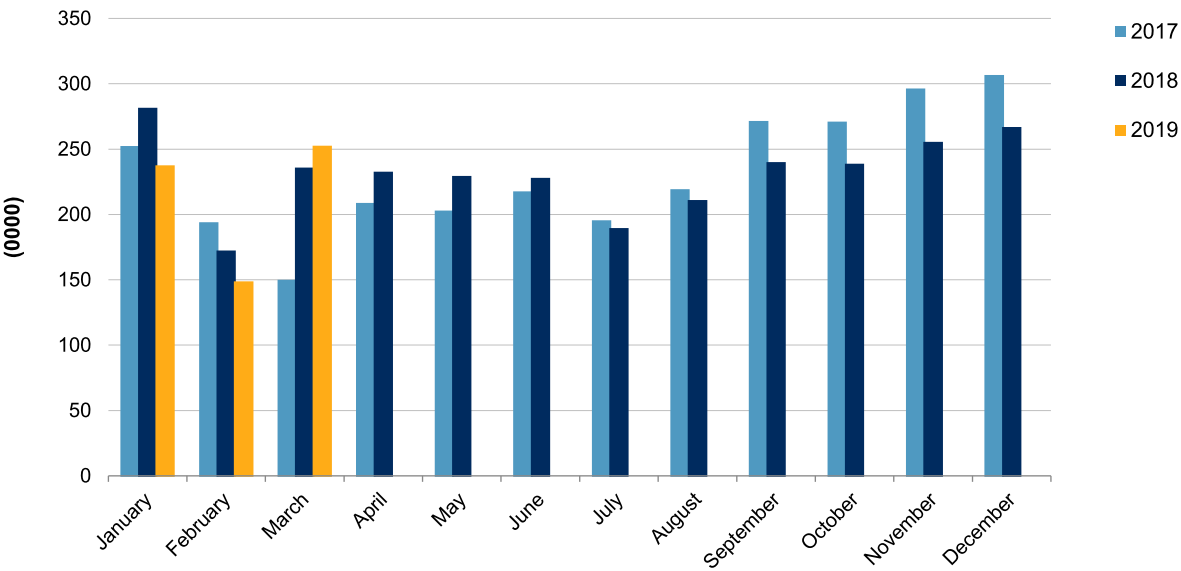
Katsuyuki Nakai
Tokyo
(81) 3-4550-8748
katsuyuki.nakai
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

Chart 1

Light Vehicle Sales In China 2017-2019

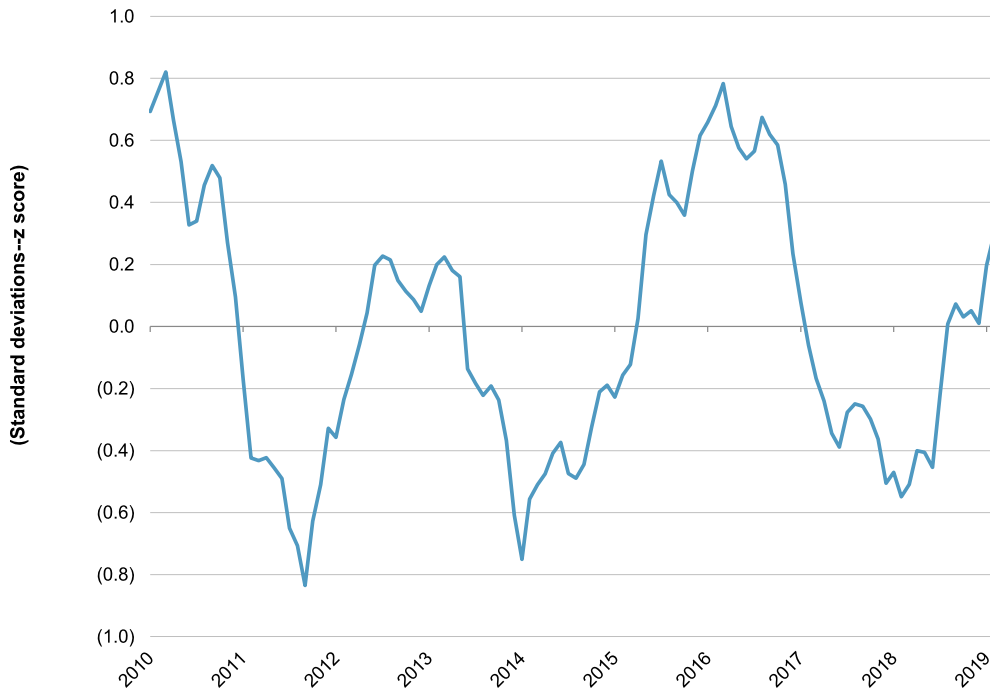


Source: Chinese Association of Auto Manufacturers.
Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Worldwide Auto Sales Will Slump More Than Expected In 2019

Chart 2

China Financial Conditions Index



Source: S&P Global Ratings.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

European Auto Sales Will Be Flat In 2019

In Europe, we no longer expect any growth in auto sales in 2019, compared with our previous expectation of low but positive growth of 1%-2%. Sales in the first quarter of 2019 declined more severely than we had expected, due to increasing geopolitical tensions, including Brexit. Weak markets might also be linked to the tail effects of the Worldwide Harmonized Light Vehicle Test Procedure (WLTP)--a global standard for testing light vehicles' pollutant and CO2 emissions and fuel consumption. According to LMC Automotive, auto sales were down by 3.5% in Western Europe in the first quarter of 2019.

The weakness of Southern European markets like Spain (-6.9% in first-quarter 2019, according to LMC Automotive) and Italy (-6.5%), and the protracted underperformance of the U.K. market (-2.4%), underpin our expectation of no growth in Europe in 2019. At the same time, the performance of other key markets in Western Europe, such as Germany (+0.2%) and France (-0.6%), is sluggish.

While from a macroeconomic perspective, we have good reason to believe that Europe's economic expansion will regain strength in the second half of this year, we believe that industry-specific headwinds might weigh on auto sales, at least in Western Europe.

As the European industry accelerates its efforts to bring new models to the market between 2019

Worldwide Auto Sales Will Slump More Than Expected In 2019

and 2020 to comply with stricter environmental regulations, we deem it likely that consumers might decide to defer purchases to next year, when the product offerings will be larger and presumably more affordable across all price segments. In addition, we can't exclude the possibility that the introduction in September 2019 of the "real driving emissions" regulation--on the amount of pollutants that should be emitted by vehicles while being driven--might cause delays in certifying new models similar to what we observed with WLTP last September.

U.S. Automakers Face A Tough Road Ahead

We see auto sales in the U.S. declining in 2019, as borrowing costs approach a 10-year high, used vehicle prices decline, tax benefits tied to alternative-fuel vehicles wane, and ongoing geopolitical risks dampen consumer demand. Overall, light vehicle sales declined by about 2% in the U.S. in the first quarter of 2019, with higher demand from fleet managers partially offsetting the decline in retail sales.

We now expect a 3.6% decline in light vehicle sales in 2019, to 16.6 million units, a downward revision from our previous expectation of 16.8 million. We expect a further decline toward 16.3 million by 2021, the lowest level since 2014. (For more details, see "The U.S. Auto Sales Decline Could Extend Several Years, But Will The Sector's Profit Margins Shrink?," published April 15, 2019.)

S&P Global Ratings' Light Vehicles Sales Forecast

	Light vehicle sales 2018 (actual)*		2019e	2020e	2019e	2020e
	Million units	Year-on-year % change	Previous		Updated	
			Year-on-year % change	Year-on-year % change	Year-on-year % change	Year-on-year % change
China	27.7	(3.0)	1.0-2.0	3.0-4.0	(3.0)	3.0
U.S.	17.3	0.7	(2.5)	0.0	(3.6)	(2.0)-(1.0)
Europe	20.6	0.1	1.0-2.0	1.0-2.0	0.0	1.0-2.0
Asia-Pacific (excluding China)	16.5	3.5	2.0-3.0	0.0-1.0	0.0-1.0	0.0
World	94.0	(0.5)	1.0-2.0	1.0-2.0	(0.5)-0.0	0.0-1.0

e--Estimate. *Source: LMC Automotive.

Related Research

- The U.S. Auto Sales Decline Could Extend Several Years, But Will The Sector's Profit Margins Shrink?, April 15, 2019
- Economic Research: Asia-Pacific Quarterly Forecasts: Tougher Trade Winds Through 2019, April 3, 2019
- The European Economy Lurches Ahead - In The Slow Lane, March 28, 2019

This report does not constitute a rating action.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.