Worldwide Auto Sales Will Slump More Than Expected In 2019

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Key Takeaways

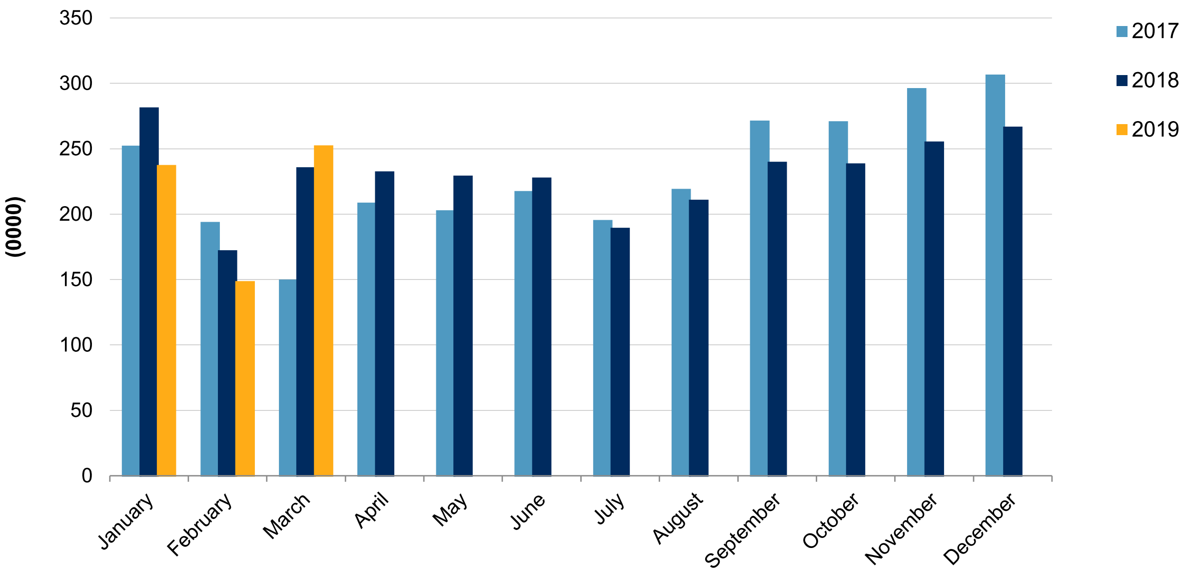
- After a weak first quarter, we foresee sales of light vehicles in China in 2019 at best replicating 2018 performance of -3%.
- This is a deterioration from our previous forecast of a low but positive 1%-2% growth rate.
- In the European market, we expect flat light vehicle sales in 2019, compared to 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).

Chart 1

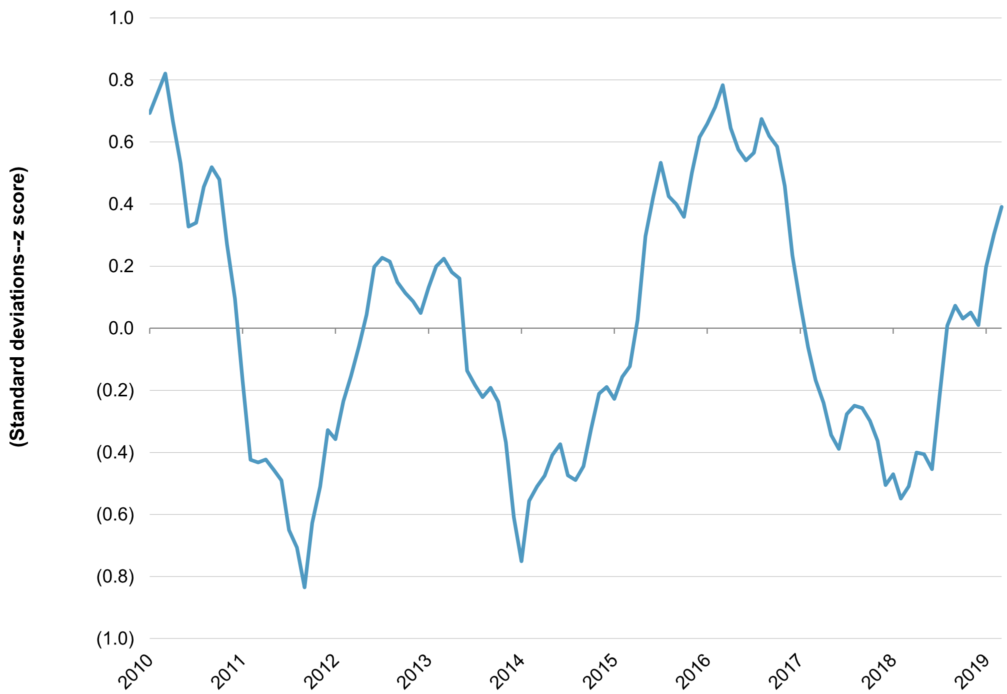
Light Vehicle Sales In China 2017-2019



Source: Chinese Association of Auto Manufacturers.

Chart 2

China Financial Conditions Index



Source: S&P Global Ratings.

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 CO_2 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 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
			Previous		Updated	
	Million units	Year-on-year % change	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.