ECG Business Intelligence

October 2020

Riding out the 2nd wave

Updated European vehicle demand forecast 2020-2030

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1. Overview: A Slow, Halting Recovery For European Vehicle Sales

1.1 Will A New Wave Drown Out An Early Recovery?

European new vehicle sales have been devasted by the coronavirus pandemic and national lockdowns imposed this past spring. In the first nine months of 2020, sales have declined around 29% across the EU, UK and European Free Trade Area (EFTA) compared to the same period in 2019.

However, there are signs of recovery in vehicle demand and production. Markets have seen the release of pent-up demand, while economic and specific automotive stimulus have helped overall new vehicle sales approach the level of monthly volume seen in 2019 in a number of major markets. Underlying demand for private transport also remains strong, especially as commuters avoid public transport.

France had several months of high demand over the summer, while in September Germany and Italy both saw double-digit sales growth compared to the same month last year. Sales in electric and plug-in hybrid vehicles are also soaring across Europe, supported in part by incentive programmes. (See ECG Business Intelligence electrified vehicle forecast and pipeline analysis.)

The recovery may be short lived, however. New Covid-19 infections are again rising in almost every European country. With governments imposing further economic restrictions and the spectre of even harsher measures casting a dark cloud, the prospects of a V-shape recovery in the relative short term have faded. Our base-case expectations for the fourth quarter across the EU, UK and EFTA are for new vehicle sales to remain around 4% below volume reached in the fourth quarter of 2019. That means an annual decline of 23.6% in 2020 compared to 2019.

Production across the region will also remain subdued in the fourth quarter, although growth in China and recovery in the US provide some upside. In the base case, we expect EU and UK production to finish 2020 around 21% lower than 2019.

But there are severe risks over the next quarter, which could have significant implications for Europe's automotive industry in 2021 and beyond. In several major European markets, including Spain, France and the UK, the rates of new infections have now reached or surpassed the daily rate that they experienced during the peak this past April (albeit most countries now have a much higher rate of testing). For many countries in central and eastern Europe, most of which had relatively low outbreaks this past spring, new cases are now far higher.

Governments are again tightening restrictions on gatherings and hospitality, and in some cases enforcing stricter local lockdowns. There are questions over whether countries might impose a second set of national lockdowns, including the reclosing of car dealerships and factories.

However, this isn't quite déjà-vu from February and March this year. Covid-related hospitalisations and deaths are rising but have not spiked in a commensurate manner with new cases. The scientific understanding is still unclear as to the reason for the lower deaths, such as whether it is because of more new infections among the young, better treatments – or whether a dramatic increase may still arrive.

As long as deaths can be kept relatively low, we think it is unlikely that major European countries will re-impose full national lockdowns. Israel has gone this route, and perhaps others may follow suit, but most European governments view these measures as an extreme last resort. The French president, Emmanuel Macron, has expressed a view that is now more common across Europe: "Containment is the crudest of measures to fight against a virus."

Most countries are aiming to follow a strategy of social restrictions, targeted measures and local lockdowns while ramping up track-and-trace programmes, increased and targeted testing and isolation for the most vulnerable. Until a vaccine is widely available, most countries are attempting to live with the virus, partly in the way we do with seasonal flu, which also kills an estimated 290,000-650,000 people each year, according to the WHO.

In all of our forecast scenarios, we do not anticipate a return to widescale shutdowns. However, ongoing limits to economic output will weigh on growth and consumer confidence. And the uncertainty around restrictions will likely lead to a slower, much more uneven recovery than would have been hoped.

European leaders have also been warning populations that a lack of vigilance could result in the return of more draconian measures. If they do, a much more extreme decline in vehicle sales would be inevitable.

1.2 The Impact Of Stimulus Measures

Even worse declines in economic activity and vehicle sales would have been likely without unprecedented stimulus measures at the national and European level. Along with financing support, the EU has agreed a €750 billion ($880 billion) recovery fund as an addition to the new EU budget. More money is also set to be available through the European Green Deal, including support and investment for transport and infrastructure. (See ECG Business Intelligence report on the European Green Deal.)

National governments launched large economic support measures, including specific automotive stimulus packages, particularly for France, Italy, Spain and Germany. The impact of these measures was partly responsible for the rebound in sales that some markets began to see this summer, such as in France in June and July, and more recently in Italy and Germany.

However, as France demonstrated in August, such stimulus measures can often pull forward demand, leading to declines thereafter. And in the UK, where no specific stimulus measures were introduced, pent-up demand spurred sales in the early period after lockdown, but volumes soon fell below 2019 levels.

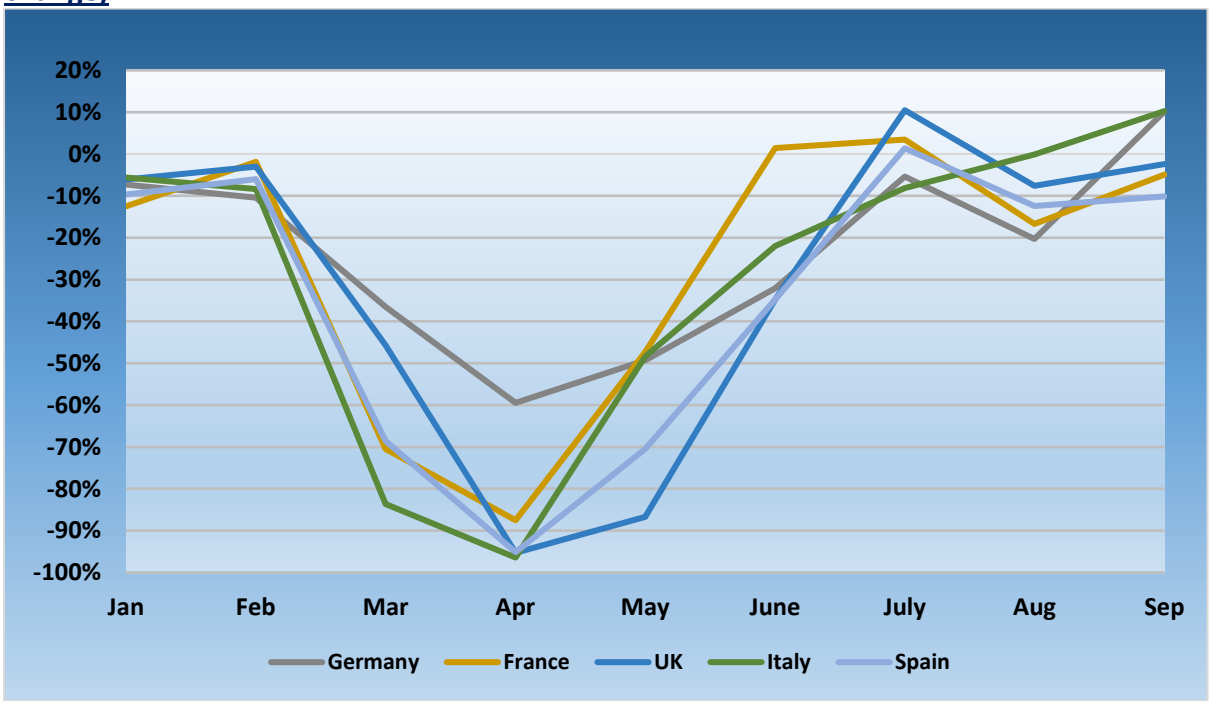
Moreover, the targeted nature of most stimulus packages in Europe, which are aimed at low-emission and electric vehicles, are unlikely to lead to large increases in overall vehicle sales in the short term.

Table 1.1 Top 5 European Counties Vehicle Monthly Demand Drop in 2020 vs 2019 (% change)

% fall	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
Germany	-7.3%	-10.4%	-36.5%	-59.5%	-49.3%	-32.1%	-5.4%	-20.3%	+10.1%*
UK	-6.1%	-3.0%	-45.7%	-95.3%	-86.7%	-34.8%	+10.5%	-7.6%	-2.4%
France	-12.5%	-1.9%	-70.5%	-87.5%	-47.3%	+1.4%	+3.4%	-16.7%	-4.9%*
Italy	-5.6%	-8.4%	-83.6%	-96.4%	-48.4%	-22.0%	-8.1%	-0.1%	+10.2%*
Spain	-9.7%	-6.0%	-68.5%	-95.1%	-70.5%	-34.8%	+1.4%	-12.4%	-10.2%

Source: VDA, SMMT, CCFA, ANFIA, ANFAC, ECG Business Intelligence
**Provisional data*

Figure 1.1 Top 5 European Countries Vehicle Monthly Demand Drop in 2020 vs 2019 (% change)



Source: VDA, SMMT, CCFA, ANFIA, ANFAC, ECG Business Intelligence

1.3 Longer Term Impact

The outlook improves in the longer term, but Europe's automotive industry will feel the effects of the crisis for years to come. Although a vaccine may become available in 2021, we do not expect a sudden and complete recovery of vehicle volumes. In our base forecast, volumes will see a double-digit rise in 2021, but nowhere near enough to recover lost ground; in fact, we don't expect European sales to return to pre-pandemic levels until 2028.

The recovery will depend not only on the trajectory of the pandemic and whether wider lockdowns can be avoided, but the degree to which badly damaged consumer confidence

erodes further – something the withdrawal of government employment support measures in countries like the UK is likely to worsen.

However, Europe was undergoing structural change before the pandemic, as OEMs adapted to tighter emission rules and new consumer patterns. We had already anticipated years of decline followed by sluggish growth before the acceleration of electrified vehicle sales boosts overall vehicle volumes later in the decade. The crisis has actually accelerated the uptake of low-emission vehicles and may herald a faster rise than previously thought. But it will be a difficult period for the industry, with OEMs and suppliers likely to face hard choices over investment, jobs, models and facilities.

1.4 Market Definition

This forecast includes all 27 markets in the EU, the UK and EFTA countries Iceland, Norway and Switzerland.

Volumes includes Passenger cars (PC) and commercial vehicles (CV).

1.5 Forecasting Scenarios

Business As Usual (BAU) Scenario

This is the outlook as though coronavirus had not occurred. Our pre-Covid forecast had already anticipated stagnant European vehicle sales in 2020 and 2021 due to economic and regulatory headwinds. However, we did expect vehicle demand to grow from around 2023, but not to reach 2019 levels until later in the decade.

Best Case Scenario

In this scenario automotive demand and consumer confidence will continue to rebound, with the fourth quarter of 2020 surpassing volume in the same period in 2019. In this scenario we expect automotive industry stimulus from most governments to be maintained or even increased, and for most countries to avoid imposing further economic restrictions. However, even in this scenario it will take until at least 2026 for European vehicle volumes to reach the same levels expected in the business-as-usual forecast.

Base Case Scenario

In this scenario, which we consider to be the most likely, fourth quarter volumes remain subdued, with economic restrictions and low consumer confidence weighing further on demand. This forecast is based on current levels of automotive industry stimulus, which will support moderate demand recovery. However, the impact of the crisis will weigh on vehicle demand for many years, and it won't be until the 2027 that volumes reach or surpass the same levels expected in the business-as-usual forecast.

Worst Case Scenario

In this scenario we expect a more severe impact from local lockdowns, other social restrictions and wider economic contractions. The fourth quarter of 2020 would see double

digit declines year-on-year, with the crisis weighing for longer on sales. Automotive industry stimulus from government will be gradually withdrawn or phased out. European vehicle sales are not expected to reach their business-as-usual levels throughout the decade.

2. EU+UK+EFTA Vehicle Monthly Registration Forecast Q4 2020

2.1 EU+UK+EFTA Registration Analysis

Vehicle sales collapsed in this spring during the lockdown period across Europe. But since most countries lifted restrictions and re-opened dealerships from May and June onwards, many markets saw some level of pent-up demand released this summer in combination with automotive stimulus packages. However, the dip in August – sales were down 17.8% from the same month in 2019 – signalled a limit to how far pent-up demand might stretch in the current climate. It also showed the limit of stimulus measures, such as in France where a generous trade-in subsidy met its allocation in July (it has since partly been renewed).

But sales so far have varied considerably. The UK saw recovery in July, but has since slowed, including during the traditionally high-volume September month. Spain, which has an incentive programme, also continued to see declines through September. Germany and Italy, meanwhile, showed strength as stimulus measures supported recovery.

Despite this variety, we anticipate a general return to normal seasonality in the last quarter of the year. With local lockdowns and uncertainty, our base case forecast for the quarter is for sales to decline 4% compared to the same period in 2019. While the overall sales volume is much higher than during the earlier lockdown and earlier reopening of the economy, the rate of sales is tepid given the ongoing levels of government stimulus and the sales lost earlier in the year. European economies remain severely constrained.

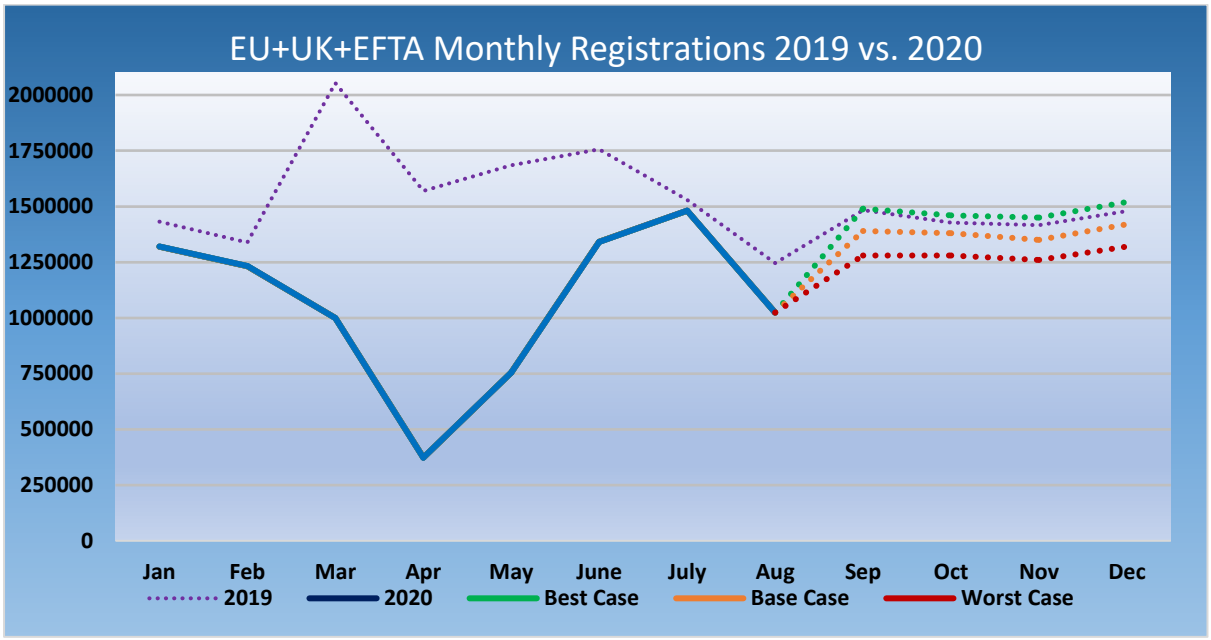
In our worst-case scenario, in which restrictions are tightened further, fourth quarter sales would drop by 10.7% compared to 2019. Because of the lost sales from March to May, we forecast overall 2020 volumes would be down 21.6% year-on-year in a best-case scenario, down 23.6% in the base case and down 25.8% in the worst case.

Table 2.1 EU+UK+EFTA Vehicle Monthly Registration Forecast Under 3 Scenarios 2019 vs. 2020 (Monthly Units)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2019	1432511	1338347	2053472	1569371	1684313	1756553	1529906	1245811	1483513	1427958	1415824	1479682	18417261
% Y-on-Y Change	-7.8%	-7.9%	-51.3%	-76.2%	-55.2%	-23.7%	-3.2%	-17.8%					
2020	1320432	1232882	999325	372983	754537	1340867	1481160	1023810					
Best Case									1490000	1460000	1450000	1520000	14445996
Volume +/-									6487	32042	34176	40318	-3971265
% Y-on-Y Change									0.4%	2.2%	2.4%	2.7%	-21.6%
Base Case									1390000	1380000	1350000	1420000	14065996
Volume +/-									-93513	-47958	-65824	-59682	-4351265
% Y-on-Y Change									-6.3%	-3.4%	-4.6%	-4.0%	-23.6%
Worst Case									1280000	1280000	1260000	1320000	13665996
Volume +/-									-203513	-147958	-155824	-159682	-4751265
% Y-on-Y Change									-13.7%	-10.4%	-11.0%	-10.8%	-25.8%

Source: ACEA, VDA, SMMT, CCFA, ANFIA, ANFAC, ECG Business Intelligence

Figure 2.1 EU+UK+EFTA Vehicle Monthly Registration Forecast Under 3 Scenarios 2019 vs. 2020 (Monthly Units)



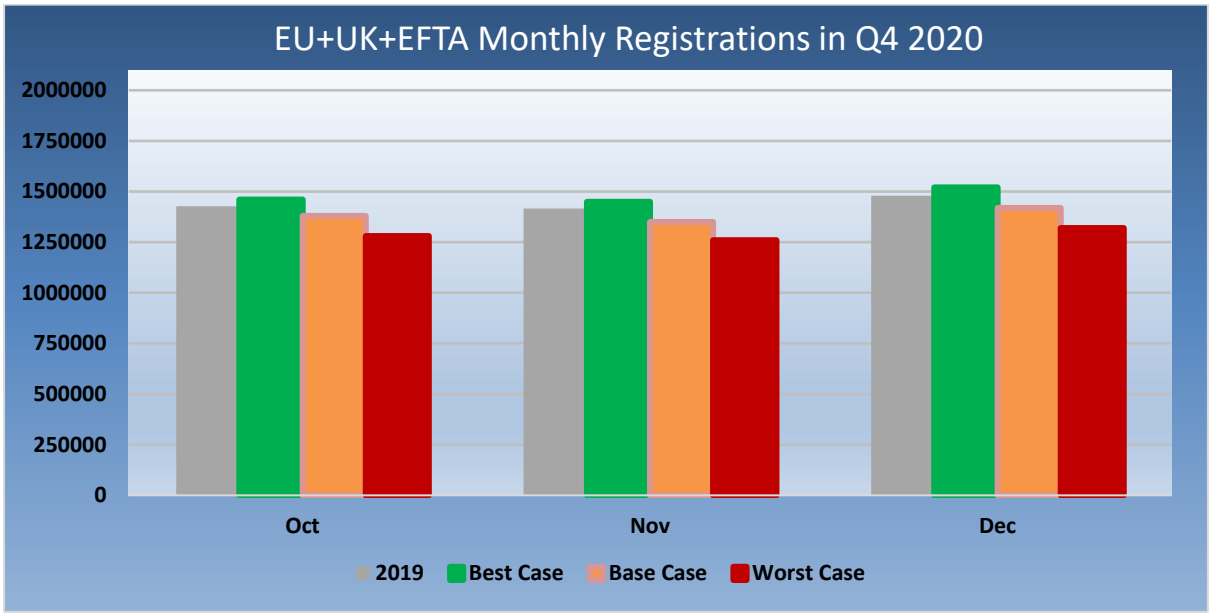
Source: ACEA, VDA, SMMT, CCFA, ANFIA, ANFAC, ECG Business Intelligence

Table 2.2 EU+UK+EFTA Vehicle Monthly Registration Forecast Under 3 Scenarios in Q4 2020 (Monthly Units)

	Oct	Nov	Dec	Q4 2020
2019	**1427958**	**1415824**	**1479682**	**4323464**
Best Case	1460000	1450000	1520000	4430000
Volume +/-	32042	34176	40318	106536
% Y-on-Y Change	+2.2%	+2.4%	+2.7%	+2.5%
Base Case	1380000	1350000	1420000	4150000
Volume +/-	-47958	-65824	-59682	-173464
% Y-on-Y Change	-3.4%	-4.6%	-4.0%	-4.0%
Worst Case	1280000	1260000	1320000	3860000
Volume +/-	-147958	-155824	-159682	-463464
% Y-on-Y Change	-10.4%	-11.0%	-10.8%	-10.7%

Source: ECG Business Intelligence

Figure 2.2 EU+UK+EFTA Vehicle Monthly Registration Forecast Under 3 Scenarios in Q4 2020 (Monthly Units)



Source: ECG Business Intelligence

3. EU+UK Vehicle Monthly Production Forecast 2020

3.1 EU+UK Production Outlook

After the forced vehicle plant shutdowns in spring, European production began to recover in June and July. Initial output was low as plants restarted, and OEMs were expected to work slowly through higher vehicle inventory levels, further reducing production demand. That has been the case for a number of manufacturers – carmakers including Fiat, Jaguar and Opel/Vauxhall kept some plants shut or at very low production well into August. However, production has been generally increasing with demand across Europe.

In most cases, monthly production volumes remain below normal levels and well below maximum capacity. In our base forecast, European production will be down 21.4% compared to 2019.

While European vehicle demand is the main driver of production, a significant share of output is exported, with the global decline in vehicle sales weighing further on exports. An earlier recovery in China has helped drive demand for some premium vehicle exports. We predict a 12% demand drop in China for 2020 compared to 2019, recovering 7% in 2021. And while the US market remains badly hit by the coronavirus crisis, there are now some signs of recovery that will support shipments from Europe. In the US, we expect a 20% demand drop in 2020 compared to 2019, recovering 9% of volumes in 2021.

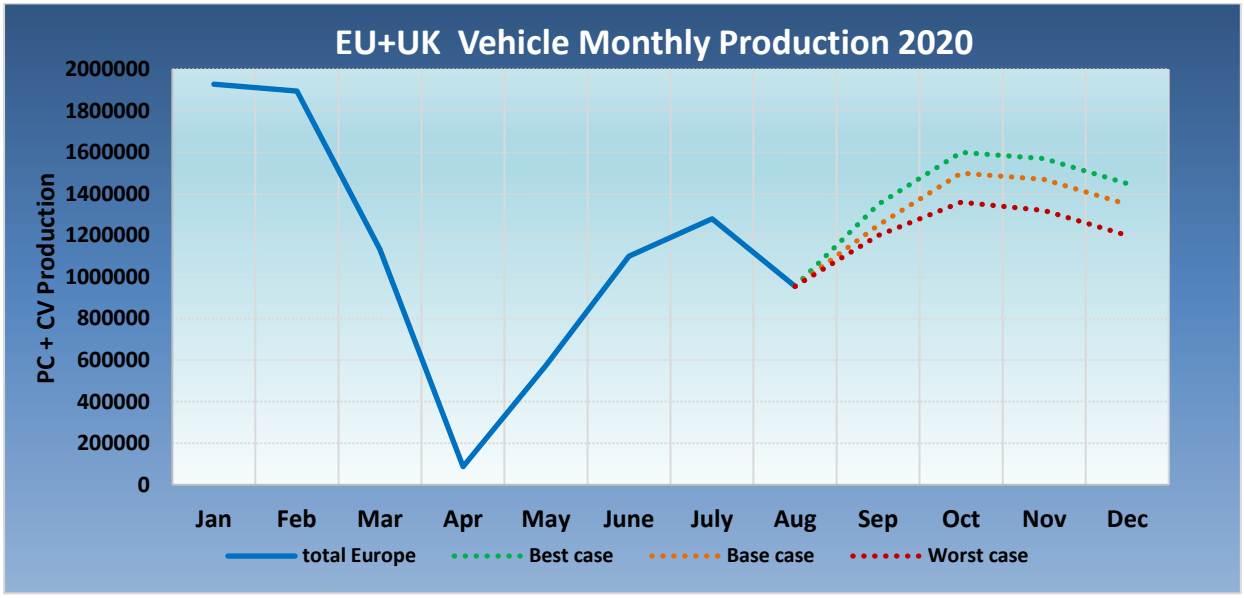
Increasing localisation of vehicle production in North America and China will limit the scope for large export rises. Nevertheless, European production will remain dependent on wider global growth before its production volumes can recover.

Table 3.1 EU+UK Vehicle Production Forecast Under 3 Scenarios 2020 (Monthly Units)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020
2020	1928187	1895094	1134191	87225	573973	1099782	1279912	955145					
Best Case									1350000	1600000	1570000	1450000	14923509
Volume +/-													-3,545,532
% Y-on-Y Change													-19.2%
Base Case									1250000	1500000	1470000	1350000	14523509
Volume +/-													-3,945,532
% Y-on-Y Change													-21.4%
Worst Case									1200000	1360000	1320000	1200000	14033509
Volume +/-													-4,435,532
% Y-on-Y Change													-24.0%

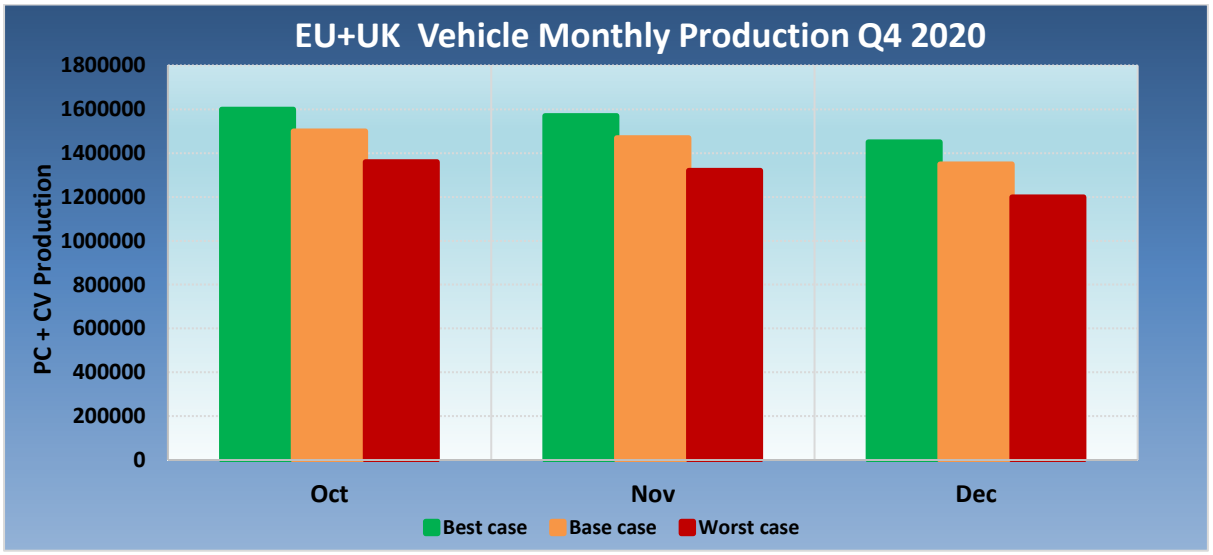
Source: ACEA, ECG Business Intelligence

Figure 3.1 EU+UK Vehicle Production Forecast Under 3 Scenarios 2020 (Monthly Units)



Source: ACEA, ECG Business Intelligence

Figure 3.2 EU+UK Vehicle Production Forecast Under 3 Scenarios in Q4 2020 (Monthly Units)



Source: ECG Business Intelligence

4. EU+UK+EFTA Vehicle Demand Forecast 2017-2030

4.1 EU+UK+EFTA Vehicle Demand Outlook

Even pre-crisis, European vehicle demand volumes were expected to soften due in large part to economic and regulatory headwinds, including slower economic growth and stricter emissions regulations, with further fallout potential from trade disputes and Brexit. In our pre-Covid 'business as usual' forecast, we expected vehicle sales to decline year-on-year across Europe until 2023 and only to recover to 2019 levels by 2027.

The effects of the pandemic on automotive demand will be felt on volumes throughout the 2020s. In all scenarios, the global recession in 2020 will reduce business investment and job creation, leading to rising unemployment and a fiscal drag lasting several years.

The prospect of a vaccine in 2021 will help suppress the virus and aid recovery but is unlikely to be a major direct factor in vehicle demand. GDP growth, employment levels and job security levels are likely to be the determining factors in whether consumers purchase big ticket items such as a vehicle (all of which a vaccine will support in the longer term).

In our best-case scenario, consumer confidence returns relatively quickly, supporting recovery in 2021 and 2022; but even then, the wider European market will have lost 7.29m units between 2020 and 2030 compared to our pre-Covid forecast. In the base case, it will take at least another year for consumer confidence to return; over the decade, vehicle sales will be 8.8m units lower compared to our pre-Covid forecast.

In the worst case, consumer confidence will restrain vehicle sales further until 2025; in this scenario, we expect 10.4m units to have been lost.

However, there is room for optimism. We do expect some recovery in 2021 in all scenarios, as sales move at least 11% higher from the historically low levels caused by national lockdowns. As economies start to better manage the virus or move on from it, we expect volume to rise steadily in the years that follow. The shift away from public transport towards personal mobility may become more permanent and will help drive sales.

Longer term, other factors will surpass Covid-19 in driving vehicle demand. Price-parity of electric vehicles compared to petrol- and diesel-powered vehicles will be key. In Europe, we expect these vehicle types to reach parity by around 2025 – in some cases, total cost of ownership is already lower for EVs. This factor, supported further by legislation to reduce emissions, will help drive electrified vehicle sales higher in the latter half of the decade.

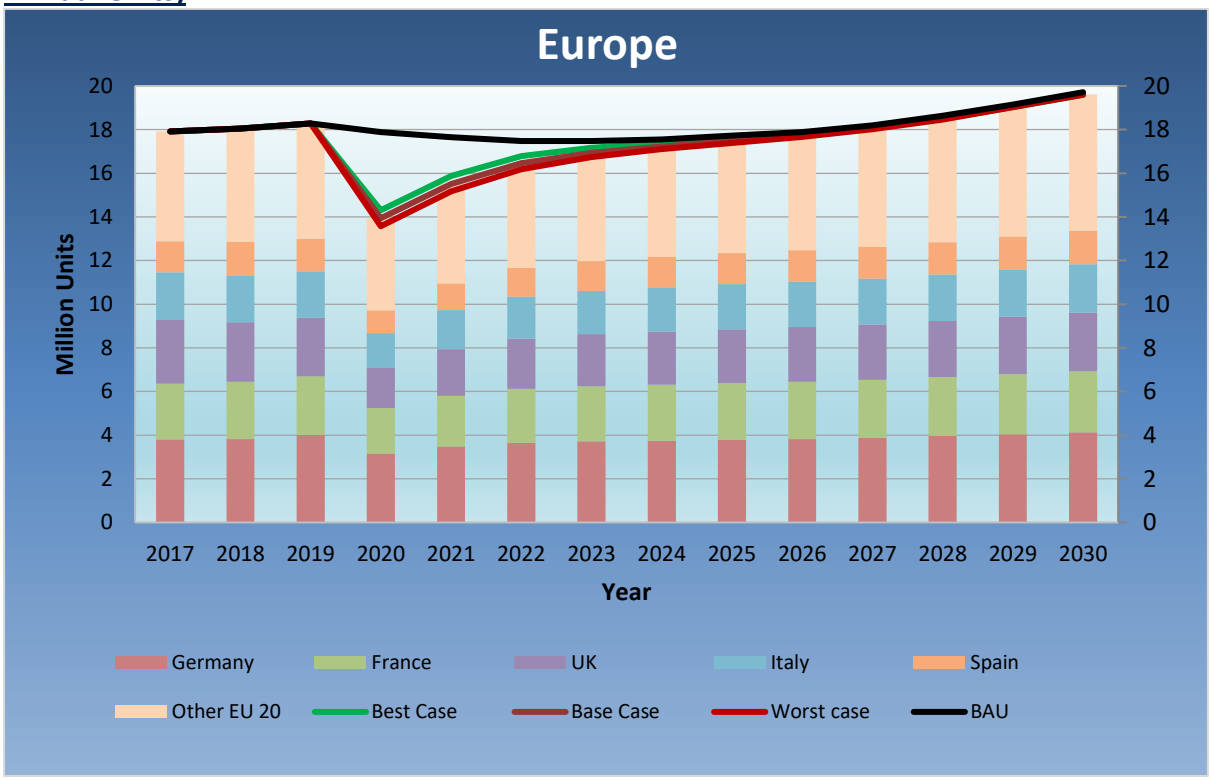
Larger macroeconomic factors such as incremental GDP growth and modest population increases will also support sales increases. However, by the end of the 2020s European vehicle sales are expected to be only marginally higher than they were in 2019.

Table 4.1 EU+UK+EFTA Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

Scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Volume Lost vs BAU
BAU	17.91	18.05	18.28	17.88	17.65	17.48	17.48	17.55	17.72	17.89	18.20	18.64	19.15	19.71	
Best Case	17.91	18.05	18.28	14.30	15.87	16.78	17.16	17.38	17.58	17.78	18.08	18.49	19.03	19.59	
YoY % change				-21.8	11.0	5.7	2.3	1.3	1.2	1.1	1.7	2.3	2.9	2.9	
Volume +/-				-4.0	1.6	0.9	0.4	0.2	0.2	0.2	0.3	0.4	0.5	0.6	-7.29
Base Case	17.91	18.05	18.28	13.94	15.51	16.46	16.93	17.23	17.49	17.75	18.07	18.50	19.05	19.62	
YoY % change				-23.8	11.2	6.1	2.8	1.8	1.5	1.5	1.8	2.4	3.0	3.0	
Volume +/-				-4.3	1.6	1.0	0.5	0.3	0.3	0.3	0.3	0.4	0.6	0.6	-8.80
Worst Case	17.91	18.05	18.28	13.57	15.17	16.18	16.75	17.11	17.39	17.67	18.01	18.46	19.03	19.60	
YoY % change				-25.8	11.8	6.7	3.5	2.2	1.6	1.6	2.0	2.5	3.1	3.0	
Volume +/-				-4.7	1.6	1.0	0.6	0.4	0.3	0.3	0.3	0.4	0.6	0.6	-10.40

Source: ACEA, ECG Business Intelligence, Automotive from Ultima Media

Figure 4.1 EU+UK+EFTA Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: ACEA, ECG Business Intelligence, Automotive from Ultima Media

Note: *the column chart illustrates the base case scenario for each country.*

5. Germany

5.1 Germany Vehicle Demand Outlook

Table 5.1 Germany Automotive Growth Drivers & Headwinds

Growth Drivers	Headwinds
• Automotive stimulus package for EVs/PHEVs	• GDP to contract 5.4% in 2020 (OECD)
• €1.1 trillion economic rescue package	• GDP growth of 1-1.2% (OECD) to 2030
• VAT reduced from 19% to 16%	• EU CO_2 emissions targets for 2020/21
• EV sales are outperforming the market, driving accelerated investment	• The economy is strongly export driven – dependent on global recovery

Germany's shorter lockdown, faster recovery from the crisis and robust fiscal response will help vehicle sales to decline slightly less this year than other major European markets, with our baseline forecast for volumes to fall by 21% in 2020 compared to 2019, and 23% in the worst case.

In terms of Germany's fourth quarter outlook, there are a number of positive factors including the impact of a robust economic stimulus package, a VAT cut for the wider economy and some targeted incentives for low-emission vehicle purchases.

It is worth noting, however, that pre-crisis Germany was already suffering economic stagnation, with annual GDP growth slowing from 1.5% in 2018 to just 0.6% in 2019. We were already forecasting relatively stagnant sales for much of the decade, driven in part by higher regulatory costs to meet stricter EU vehicle emission standards, which increase the cost of new vehicles. Furthermore, Germany has indicated it may also impose increased taxes from 2021 on vehicles emitting more than 195g CO_2/km.

Although Germany appears so far to have handled the pandemic better than other countries, the crisis has severely compounded these pre-existing challenges.

With a relatively short lockdown compared to other markets, German vehicle sales fell less significantly in the spring than they did in markets that imposed longer lockdowns such a France or the UK. However, sales have been uneven over the summer, including a 20.3% year-on-year decrease in August. A wider recovery may have started in September, with provisional sales up 10.1% compared to 2019.

The German government has taken huge steps to support its economy, including a stimulus package of €1.1 trillion – one of the highest as a share of the economy of any country – and significant support to pay shares of employees' wages. On 4th June, the government announced a €130 billion package including targeted support for automotive demand.

The automotive industry stimulus provides grants for EVs costing under €40,000 of €9,000 (€6,000 from government, and €3,000 from OEMs). PHEV subsidies increased to €6,750 (€4,500 from government). However, subsidies only apply to EVs and PHEVs and decrease for

vehicles over €40,000, meaning premium models will benefit much less. The package also provides support for EV charging infrastructure.

However, unlike the French stimulus plan, the German scheme provides no direct incentives for conventional petrol and diesel vehicles, which make up more than 90% of German vehicles, including more profitable SUV sales. German OEM and dealer groups have expressed concern that the incentives will do little to stimulate sales.

There are also supply constraints for electric vehicles; many customers are already on waiting lists that stretch several months for a number of popular models, and OEMs are not always able to immediately scale up production to meet demand for more EVs and PHEVs. However, while the subsidies are unlikely to have a huge effect on consumer preferences, we expect that they will make electrified vehicles more price competitive with conventional ICE vehicles.

As lockdowns have lifted, Germany has seen rises in daily coronavirus cases. However, cases in Germany have not spiked in the alarming manner that France, Spain, the UK and eastern European countries have. Nonetheless, Germany has imposed further restrictions and implemented a number of local lockdowns. However, we do not see this yet having a significant impact upon consumer demand in the fourth quarter and beyond – unless those restrictions significantly tighten or go beyond targeted local lockdowns.

In the base-case scenario, 2020 volumes will fall 21%, but will regain nearly half of that ground growing by 10% in 2021 and 4.5% in 2022. However, overall sales volumes are not expected to return to pre-crisis volumes until 2029.

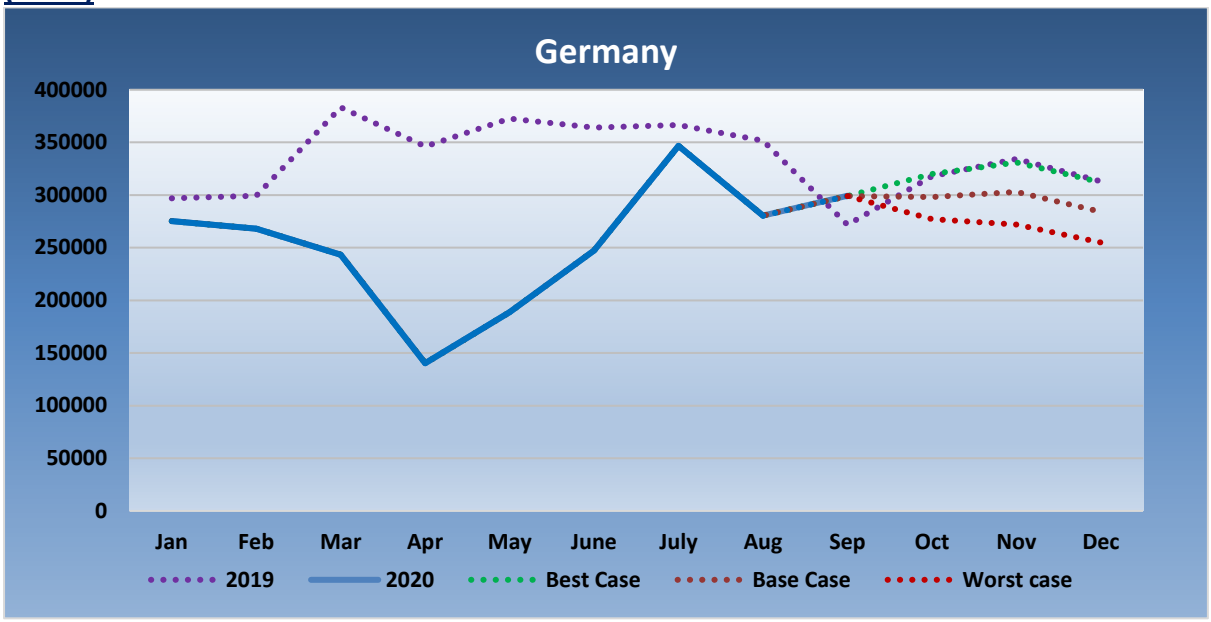
Beyond 2020, we expect Germany to see vehicle sales start to recover, including 10% growth in 2021 year-on-year. As with the wider European market, a wider sales recovery is expected by the middle of the decade, however German vehicle sales are only expected to reach pre-crisis levels by the end of the decade.

Table 5.2 Germany Vehicle Monthly Demand 2019 vs. Forecast Under 3 Scenarios 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	297001	299298	383224	346174	372510	364099	366449	351618	271717	317803	334179	312987	4017059
YoY % change	-7.3%	-10.4%	-36.5%	-59.5%	-49.3%	-32.1%	-5.4%	-20.3%	10.1%				
2020	275211	268058	243239	140295	188771	247290	346694	280328	299227*				
Best										320000	331000	312000	3,251,886
YoY % change										0.7	-1.0	-0.3	-19.0%
Base										298000	303000	284000	3,173,886
YoY % change										-6.2%	-9.3%	-9.3%	-21.0%
Worst										277000	272000	255000	3,092,886
YoY % change										-12.8%	-18.6%	-18.5%	-23.0%

Source: VDA, ECG Business Intelligence

Figure 5.1 Germany Vehicle Monthly Demand 2019 vs. Forecast Under 3 Scenarios 2020 (Units)



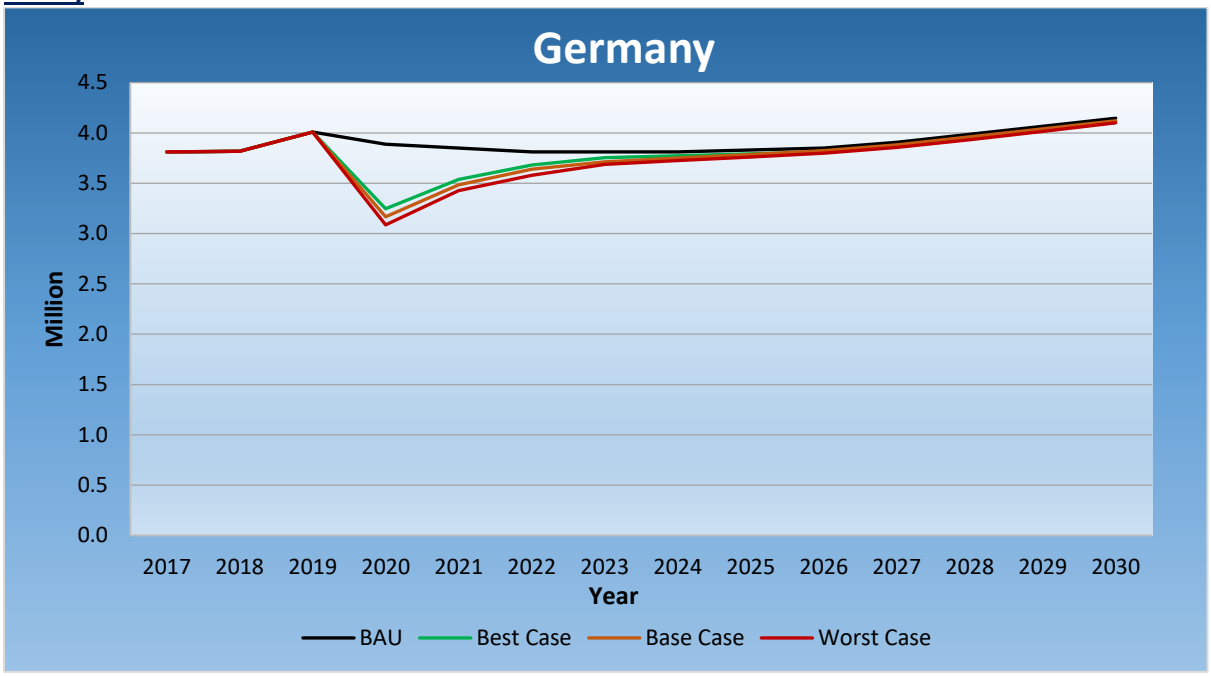
Source: VDA, ECG Business Intelligence

Table 5.3 Germany Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	3.81	3.82	4.01	3.89	3.85	3.81	3.81	3.81	3.83	3.85	3.91	3.98	4.06	4.15
Best	3.81	3.82	4.01	3.25	3.54	3.68	3.75	3.77	3.79	3.81	3.87	3.95	4.02	4.10
YoY % change		0.20	5.00	-19.00	9.00	4.00	2.00	0.50	0.50	0.50	1.50	2.00	2.00	2.00
Volume +/-				-0.76	0.29	0.14	0.07	0.02	0.02	0.02	0.06	0.08	0.08	0.08
Base	3.81	3.82	4.01	3.17	3.48	3.64	3.71	3.75	3.79	3.83	3.88	3.96	4.04	4.12
YoY % change		0.2	5.0	-21.0	10.0	4.5	2.0	1.0	1.0	1.0	1.5	2.0	2.0	2.0
Volume +/-				-0.84	0.32	0.16	0.07	0.04	0.04	0.04	0.06	0.08	0.08	0.08
Worst	3.81	3.82	4.01	3.09	3.43	3.58	3.69	3.72	3.76	3.80	3.86	3.93	4.02	4.10
YoY % change		0.2	5.0	-23.0	11.0	4.5	3.0	1.0	1.0	1.0	1.5	2.0	2.1	2.1
Volume +/-				-0.92	0.34	0.15	0.11	0.04	0.04	0.04	0.06	0.08	0.08	0.08

Source: VDA, ECG Business Intelligence

Figure 5.2 Germany Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: VDA, ECG Business Intelligence

5.2 Germany Production And Export Outlook

Germany's economy is strongly export driven. Of the 4,947,311 units produced in 2019, 75% of volume worth $142.3 billion was exported. Of those exports, 58% go to the EU (including the UK), 19% go to Asia and 12% go to the US.

In that context, it is crystal clear how the German industry (and wider economy) is highly dependent on European and global growth. We expect German vehicle production to decline by more than its vehicle sales, as shipments to wider export markets are hit.

German production and exports also face risks from further disruption to trade, notably the possibility of a no-deal Brexit at the end of the UK's transition period this year, or further fallout with the US. However, one strength of German vehicle exports is that they are quite regionally diversified around the world and not too reliant on demand recovery in one particular region.

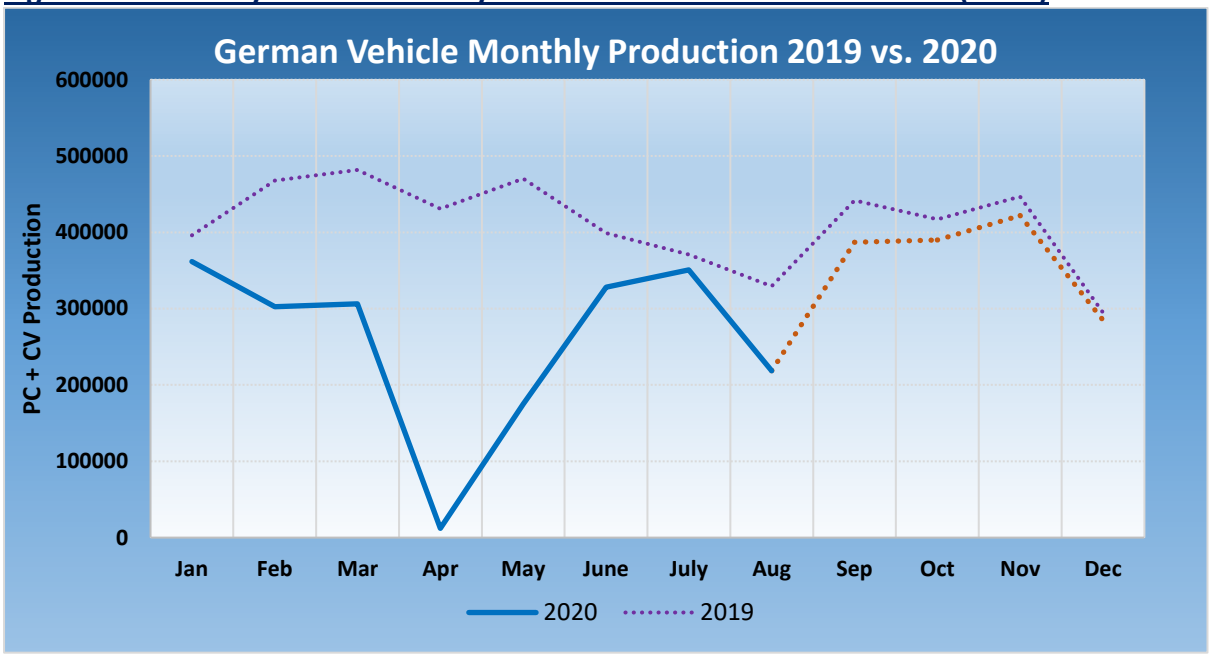
Germany's is Europe's largest automotive production base; however, it has higher plant capacity utilisation than southern European neighbours. While vehicle production consolidation is likely, there are fewer prospects for German plant closures than elsewhere. In the short to medium term, production is likely to be invigorated by the heavy investments and migration that carmakers like the Volkswagen Group are making towards EVs, along with other German OEMs. Global EV leader Tesla is also building a new vehicle plant near Berlin.

Table 5.4 Germany Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	395988	467808	481775	430951	470168	399148	371127	329586	441995	417134	446710	294926	4,947,316
2020	361636	302494	306396	12169	174939	328164	350660	218710	387000	390000	422000	285000	3,539,168
YoY % change	-8.7%	-35.3%	-36.4%	-97.2%	-62.8%	-17.8%	-5.5%	-33.6%	-19.2%	-16.1%	-14.5%	-10.1%	-28.5%

Source: VDA, ECG Business Intelligence

Figure 5.3 Germany Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)



Source: VDA, ECG Business Intelligence

6. France

6.1 France Vehicle Demand Outlook

Table 6.1 France Automotive Growth Drivers & Headwinds

Growth Drivers	Headwinds
• €8 billion automotive stimulus package	• GDP will fall 9.5% in 2020 (OECD)
• Strong demand growth in past 6 years	• Collapse in diesel demand hit France hard
• EV sales have outperformed the market	• French industry closely tied to EU recovery
	• EU CO_2 emissions targets for 2020/21
	• Covid spikes and more local restrictions

France's substantial automotive stimulus package has undoubtedly had a short-term boost to volumes this past summer; their recent renewal should also support sales in the fourth quarter of the year as well.

Nonetheless, we forecast a significant fall in French annual vehicle sales in 2020, dropping 23% in our base case and 25% in the worst case. The impact will be felt well into 2021 and beyond; in the base scenario we don't expect new vehicle sales to recover to pre-crisis levels until around 2028.

France's automotive market was, like other western European countries, facing relative stagnation in vehicle sales before Covid. Although new vehicle sales had risen steadily over the previous six years, reaching 2.69m in 2019, France has faced high regulatory costs, while the collapse in diesel vehicle sales was particularly evident.

The French government introduced strict lockdown measures on 16th March, and car dealerships were only allowed to re-open on 11th May, during which time vehicle sales fell sharply and only started to show signs of recovery in May.

An €8 billion automotive stimulus package was introduced from 1st June targeting a range of vehicles, but mainly incentivising EVs and PHEVs. President Macron's intention was not only to stimulate vehicle demand, but also to make France the European leader in EV production, targeting 1m units a year by 2025.

Private EV buyers (up to €45,000) get a rebate increased from €6,000 to €7,000, with a €5,000 rebate for business customers. Buyers of PHEVs also get a €2,000 rebate for the first time. The government also doubled the scrappage incentive on up to 200,000 vehicles. Buyers who exchange older models can claim €3,000 back on an ICE vehicle, while EV models are eligible for €5,000. Notably, these trade-in bonuses can be combined with EV and PHEV rebates, with some buyers of EVs able to get €19,000 with the income-based bonus.

Responding to this demand stimulus and pent-up demand, France was the first major European market to return to pre-crisis levels, with sales increasing year-on-year in both June and July. But the limits to such incentive schemes were revealed in August, with French sales

dipping 16.7% year-on-year as pent-up demand unwound, and the scrappage programme expired after reaching the initial cap of 200,000 vehicles in July (the government has since extended it and linked incentives more closely with income). In September, provisional sales data indicated a sign of decline 4.9% down compared to 2019.

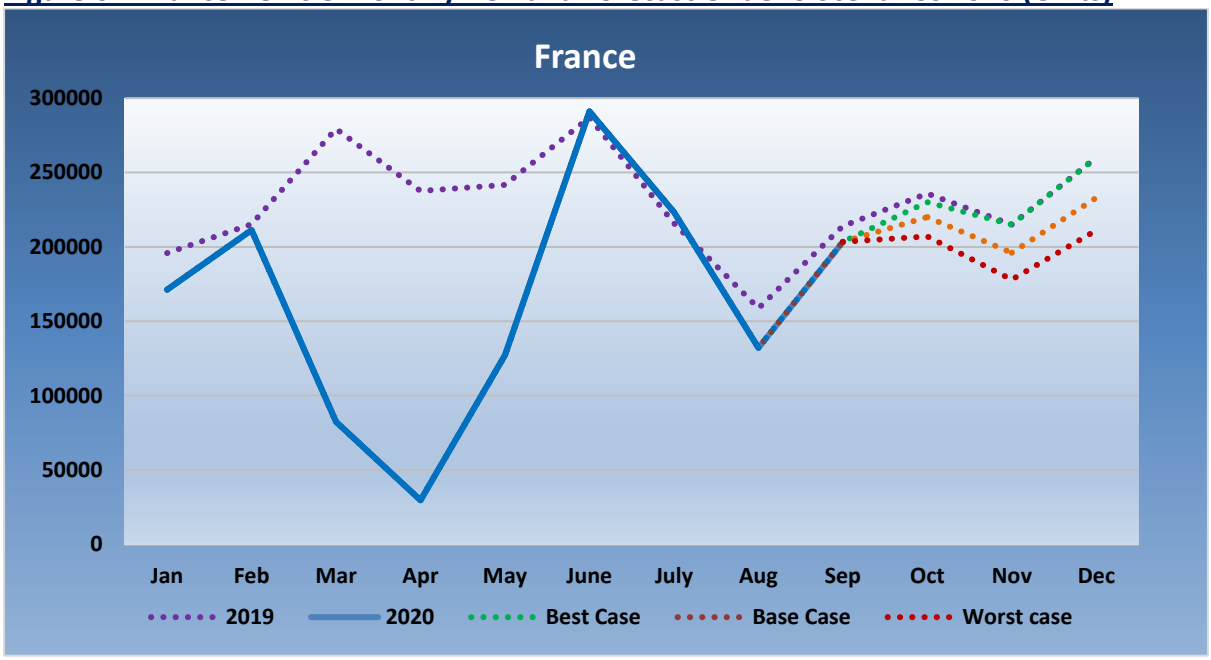
Since August, however, France has seen exponential growth in new cases, leading to new restrictions in major cities, including limits on gatherings, bars and restaurants. These restrictions will continue to impact on the economy and ultimately vehicle sales. However, it is only if major regional or national lockdowns are put in place with orders to shut certain businesses such as car dealerships that we see a major impact upon vehicle sales volumes. We otherwise expect France to start seeing more stable recovery in 2021.

Table 6.2 France Vehicle Monthly Demand Forecast Under 3 Scenarios 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	195747	215262	279304	237488	241586	286991	215917	158723	213877	235849	214882	260069	2755695
YoY % change	-12.5%	-1.9%	-70.5%	-87.5%	-47.3%	1.4%	3.4%	-16.7%	-4.9%				
2020	171189	211275	82401	29649	127264	291064	223,351	132175	03,291*				
Best										230000	215000	260000	2176659
YoY % change										-2.5%	0.1%	0.0%	-21.0%
Base										220000	196000	233000	2120659
YoY % change										-6.7%	-8.8%	10.4%	-23.0%
Worst										207000	178000	211000	2067659
YoY % change										-12.2%	-17.2%	18.9%	-25.0%

Source: CCFA, ECG Business Intelligence

Figure 6.1 France Vehicle Monthly Demand Forecast Under 3 Scenarios 2020 (Units)



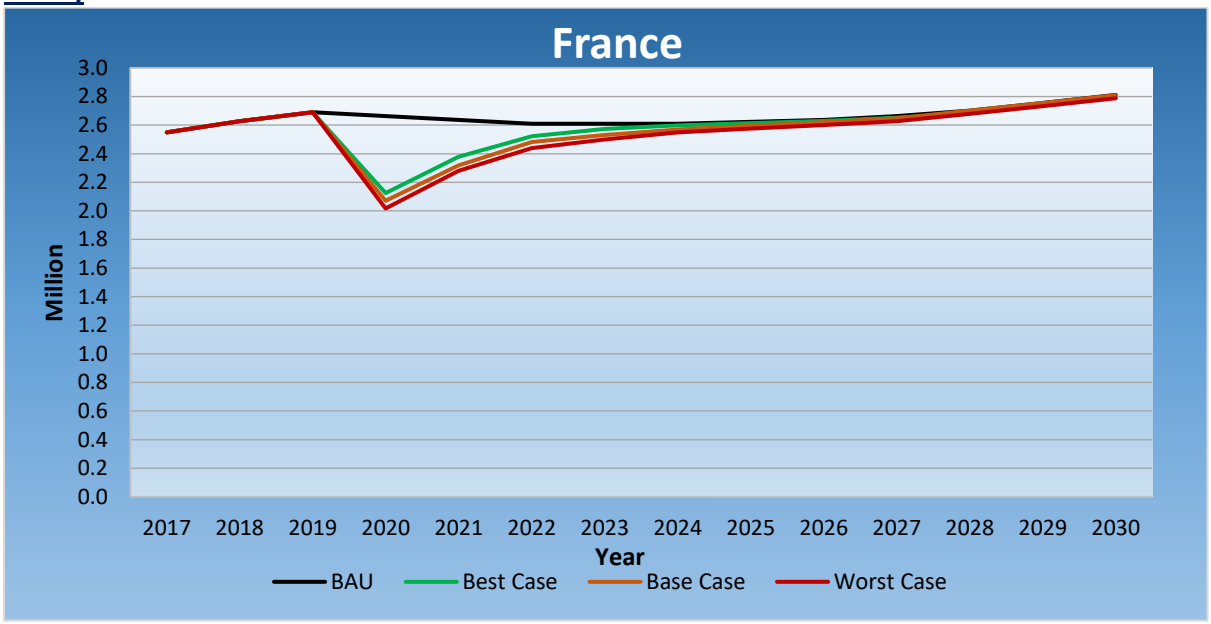
Source: CCFA, ECG Business Intelligence

Table 6.3 France Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

Scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	2.55	2.63	2.69	2.66	2.64	2.61	2.61	2.61	2.62	2.64	2.66	2.70	2.76	2.81
Best Case	2.55	2.63	2.69	2.12	2.38	2.52	2.57	2.60	2.61	2.63	2.65	2.69	2.74	2.79
YoY % change		3.00	2.40	-21.00	12.00	6.00	2.00	1.00	0.60	0.60	0.80	1.30	2.00	2.00
Volume +/-				-0.56	0.25	0.14	0.05	0.03	0.02	0.02	0.02	0.03	0.05	0.05
Base Case	2.55	2.63	2.69	2.07	2.32	2.48	2.53	2.57	2.60	2.62	2.65	2.70	2.75	2.81
YoY % change		3.0	2.4	-23.0	12.0	7.0	2.0	1.5	1.0	1.0	1.0	2.0	2.0	2.0
Volume +/-				-0.62	0.25	0.16	0.05	0.04	0.03	0.03	0.03	0.05	0.05	0.06
Worst Case	2.55	2.63	2.69	2.02	2.28	2.44	2.50	2.55	2.58	2.60	2.63	2.68	2.73	2.79
YoY % change		3.0	2.4	-25.0	13.0	7.0	2.5	2.0	1.0	1.0	1.0	2.0	2.0	2.0
Volume +/-				-0.67	0.26	0.16	0.06	0.05	0.03	0.03	0.03	0.05	0.05	0.05

Source: CCFA, ECG Business Intelligence, Automotive from Ultima Media

Figure 6.2 France Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: CCFA, ECG Business Intelligence, Automotive from Ultima Media

6.2 France Production And Export Outlook

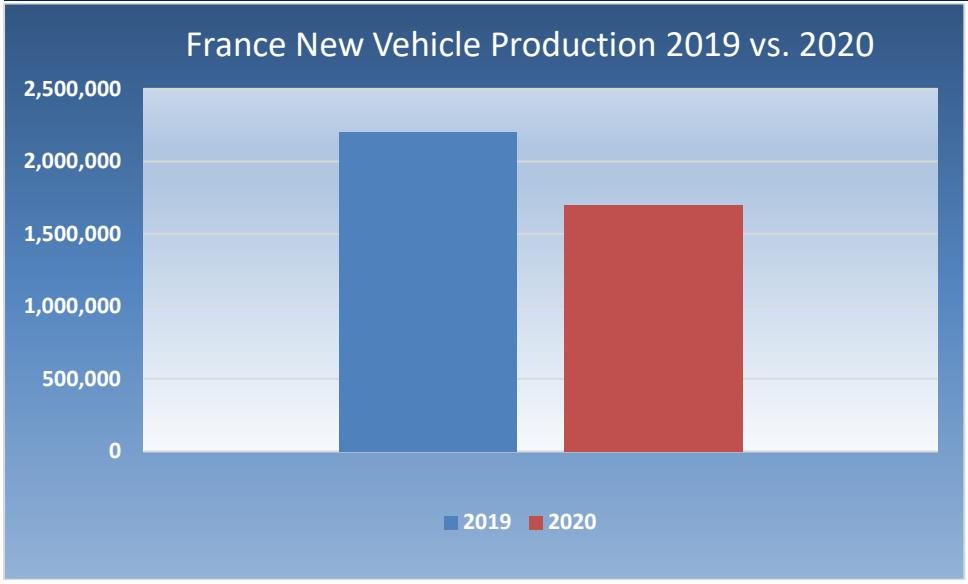
As a major diesel powertrain production and sales base, the collapse in diesel demand has hit France particularly hard. Furthermore, France's automotive industry is heavily linked to the wider European recovery. For example, of the 2,202,460 units produced in France in 2019, 81% of vehicles were exported (with a value of $23.6 billion), mainly to Europe.

The country's output is closely dependent on recovery in the UK and southern Europe – two of the hardest-hit regions. We expect output in 2020 to be 25% down from 2019 falling to 1,695,000 units in 2020.

Vehicle production in France is dominated by PSA and Renault, both of whom have struggled with under-capacity utilisation of facilities. However, ownership stakes and support from the French government make factory closures particularly difficult. Renault is nonetheless likely to consolidate production and at least repurpose some plants away from vehicle production. The planned closure of Alliance partner Nissan's Barcelona plant was reported to include moving van production to Renault in France, but the closure has been delayed until December 2021.

PSA also has excess capacity, though it is also investing heavily in producing electric vehicles. Nevertheless, its planned merger with FCA could lead to further rationalisation of production.

Figure 6.3 France Vehicle Production 2019 vs. 2020 (Million Annual Units)



Source: CCFA, ECG Business Intelligence

7. UK

7.1 UK Vehicle Demand Outlook

Table 7.1 UK Automotive Growth Drivers & Headwinds

Growth Drivers	Headwinds
• Strong UK government fiscal response	• Brexit will negatively impact the economy
• EV sales are outperforming the market	• No automotive stimulus package
• Government may ban ICE from 2030	• GDP decline of 10.1% in 2020 (OECD)
	• GDP growth 1.3%-2.0% up to 2030 (OECD)
	• Strict CO_2 emissions targets
	• Collapse in demand for diesel vehicles
	• Covid spikes and local restrictions

The UK has been one of the worst affected countries by the coronavirus crisis in terms of deaths and economic contraction. We forecast a significant fall in annual sales volumes in 2020, dropping 30% in our base case.

The fourth quarter looks set to be a difficult period for the wider UK economy and its automotive sector. The government's job-support furlough scheme will end in October, with large numbers of redundancies expected, and further uncertainty over the Brexit negotiations. It is also facing significant risks as coronavirus cases rise exponentially once again, leading to further local and national restrictions. It is a heady cocktail of factors undermining consumer confidence.

Pre-Covid-19, the UK vehicle market was experiencing many challenges, in large part due to slower economic activity and investment following the 2016 Brexit vote, and a fall in the value of the pound. Sales volumes were already in decline from 2.91m units in 2017 to 2.68m units in 2019. We were already expecting a 'lost decade' in UK vehicle demand growth, with 2019 levels only expected to return by 2030.

The Covid-crisis has severely compounded the situation. The UK shut car dealerships for 10 weeks from 24th March until 1st June, leading to an almost complete stop to vehicle sales in April and May. However, sales started to recover in June and rose a strong 10.5% year-on-year in July driven by pent-up demand. The market stabilised in August, down 5.8% compared to the same month in 2019. In September – typically a high-volume month – vehicle sales volumes were down 2.4% from a low base in 2019.

Unlike other major European markets, the UK government has not implemented further specific automotive stimulus. Although the UK already has an array of tax incentives for low-emission vehicles, it has avoided much more targeted EV and PHEV stimulus – perhaps partly on the basis that it would just drive further imports, and not help UK manufacturing.

The role of incentives is an interesting point, because although the vehicle sales contraction that we expect in 2020 is sharper in the UK than other European countries, the bounce back

so far during 2020 has followed a similar trajectory to other European countries that do have strong stimulus programmes. However, we expect the UK's recovery to remain soft without the additional lift of incentives.

The UK is now facing a rapid increase in new coronavirus cases. Initially these spikes were dealt with by targeted local lockdowns mainly in the North West and North East of England, but also parts of Wales and Scotland. At present, the local lockdowns affect around 25% of the UK's population. Additional national restrictions have been added on the number of people meeting in bars and restaurants, along with guidance to work from home where possible.

These new restrictions, which are set to remain in place for six months, have not directly impacted car dealerships, which we expect to remain open and to be unaffected. However, there have been suggestions of a 'circuit breaker' lockdown that could last two weeks, though this is so far still unconfirmed.

During the month of October, the furlough scheme supporting millions of jobs, will be phased out (and replaced by a more limited job support scheme) which is expected to lead to a substantial rise in unemployment. The consequences for the UK economy and consumer confidence – and thus vehicle sales – are likely to be one of the most severe in Europe. The OECD has forecasted GDP will fall by 10.1% in 2020, albeit with a strong bounce back in 2021. But the economic scars will remain for many years.

Also haunting the economic outlook is uncertainty over the Brexit negotiations with the EU. The UK, which formally left the EU in January this year, will also leave the European single market and customs union at the end of 2020. As of October, a 'no-deal' and defaulting to WTO trade tariffs looks increasingly likely. If no free trade agreement is reached, OEMs would face tariffs of around 4% on imported components and 10% on imported vehicles, which would impact both UK manufacturing and vehicle demand very hard.

Even if a deal is struck, for example on the lines of the agreement between the EU and Canada, trade between the UK and the continent will face more time and costs for customs clearance, as well as other constraints on the supply chain. Most economists believe that Brexit, in any scenario, will result in lower economic growth.

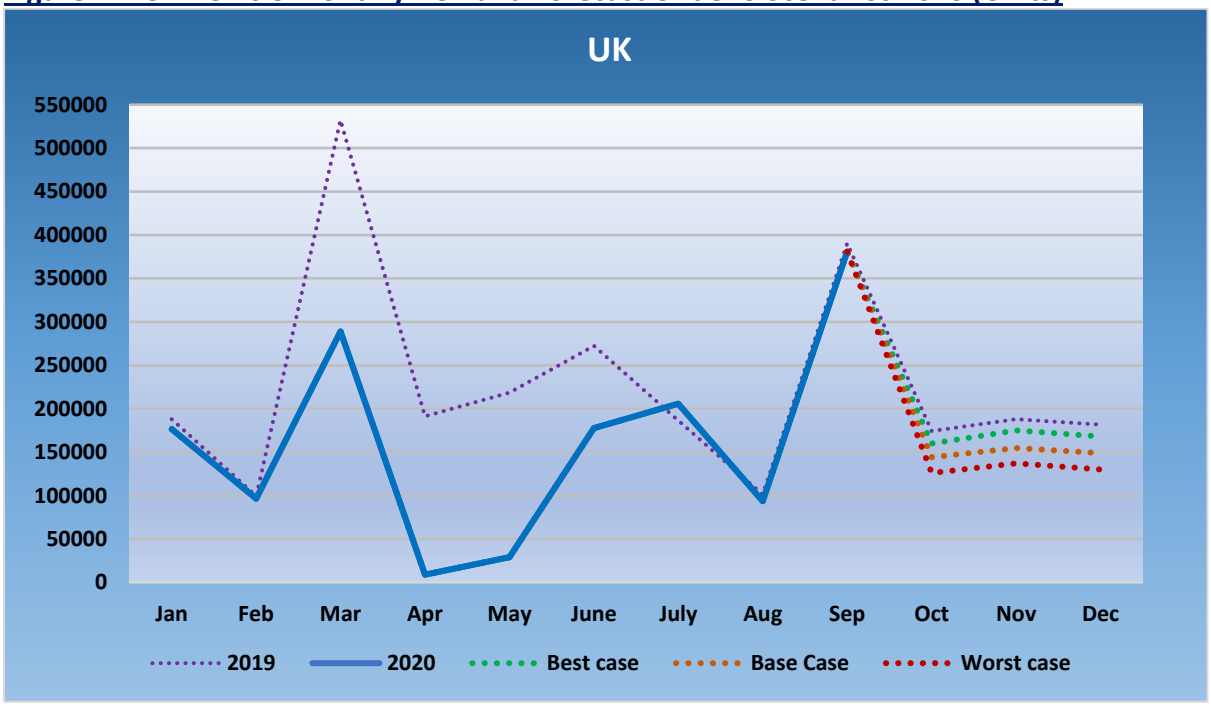
The scale of the UK sales decline in 2020 is expected to be followed by some recovery in 2021; but even the 14% growth year-on-year that we forecast in our base case would make up less than half of the lost ground in 2020. And due to a multitude of headwinds, our base case is that volumes will not recover to pre-crisis levels this decade.

Table 7.2 UK Vehicle Monthly Demand Drop in 2019 vs 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	188050	99428	532289	191198	218532	272478	186357	101260	390329	174299	188073	181573	2723866
YoY % change	-6.1%	-3.0%	-45.7%	-95.3%	-86.7%	-34.8%	10.5%	-7.6%	-2.4%				
2020	176608	96444	288918	9003	29094	177710	205842	93579	380882*				
Best										160000	175000	168000	1961080
YoY % change										-8.2%	-7.0%	-7.5%	-28.0%
Base										144000	155000	49000	1906224
YoY % change										-17.4%	-17.6%	17.9%	-30.0%
Worst										6000	137000	30000	1851224
YoY % change										-27.7%	-27.2%	28.4%	-32.0%

Source: SMMT, ECG Business Intelligence

Figure 7.1 UK Vehicle Monthly Demand Forecast Under 3 Scenarios 2020 (Units)



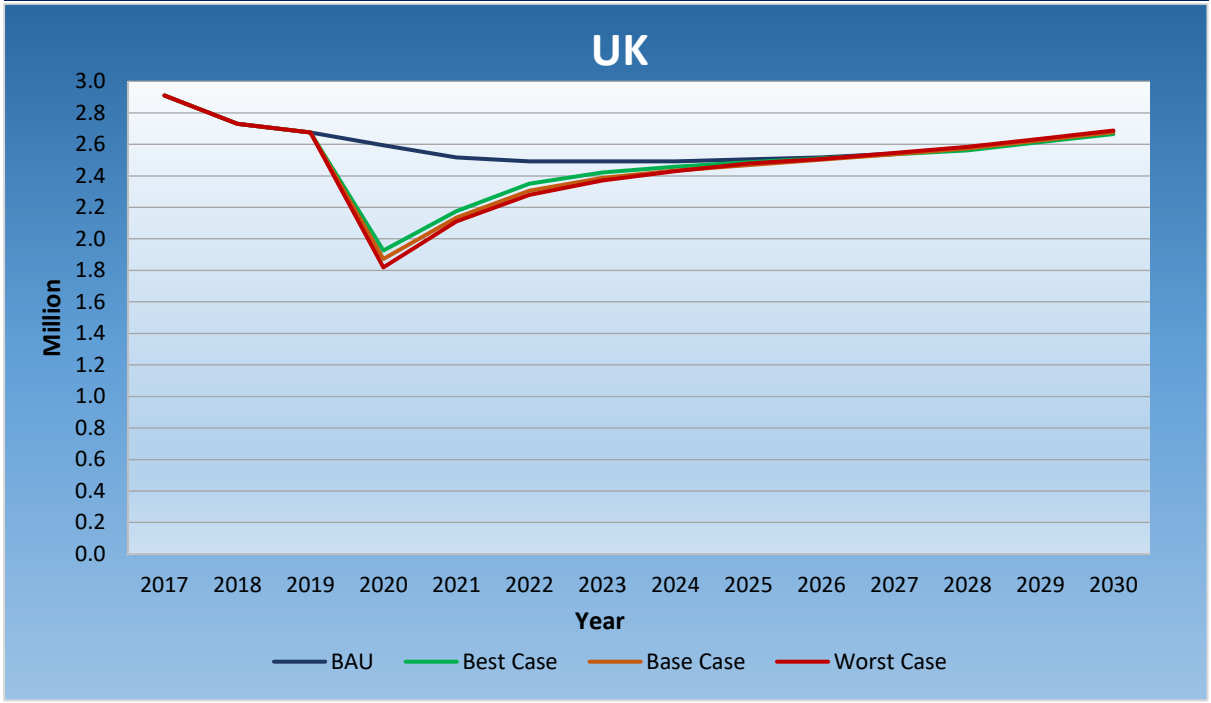
Source: SMMT, ECG Business Intelligence

Table 7.3 UK Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

Scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	2.91	2.73	2.67	2.59	2.52	2.49	2.49	2.49	2.50	2.52	2.54	2.58	2.63	2.68
Best Case	2.91	2.73	2.67	1.93	2.18	2.35	2.42	2.46	2.49	2.51	2.54	2.56	2.61	2.67
YoY % change		-6.20	-2.00	-28.00	13.00	8.00	3.00	1.50	1.20	1.00	1.00	1.00	2.00	2.00
Volume +/-				-0.75	0.25	0.17	0.07	0.04	0.03	0.02	0.03	0.03	0.05	0.05
Base Case	2.91	2.73	2.67	1.87	2.13	2.31	2.39	2.43	2.47	2.50	2.54	2.57	2.62	2.68
YoY % change		-6.2	-2.0	-30.0	14.0	8.0	3.5	2.0	1.4	1.4	1.4	1.4	2.0	2.0
Volume +/-				-0.80	0.26	0.17	0.08	0.05	0.03	0.03	0.04	0.04	0.05	0.05
Worst Case	2.91	2.73	2.67	1.82	2.11	2.28	2.37	2.43	2.48	2.51	2.55	2.58	2.64	2.69
YoY % change		-6.2	-2.0	-32.0	16.0	8.0	4.0	2.5	2.0	1.2	1.5	1.5	2.0	2.0
Volume +/-				-0.86	0.29	0.17	0.09	0.06	0.05	0.03	0.04	0.04	0.05	0.05

Source: SMMT, ECG Business Intelligence, Automotive from Ultima Media

Figure 7.2 UK Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: SMMT, ECG Business Intelligence, Automotive from Ultima Media

7.2 UK Production And Export Outlook

UK vehicle production was 1.3m units in 2019 (down from 1.6m in 2018), of which 80% were exported. Of those exports, nearly 55% went to the EU, 18.9% to the US and 5.3% to China. The UK is therefore heavily dependent upon the EU demand recovery – but also highly susceptible to the Brexit outcome.

As these export markets slowly recover, we also expect the usual seasonality of production to return. But we still expect UK production to end the year nearly 30% lower than in 2019.

British manufacturing has been increasingly under pressure. Honda has already announced the closure of its Swindon plant in 2021, and Nissan has cancelled the production of several new models at its plant in Sunderland. Tata-owned Jaguar Land Rover, the country's most important automotive manufacturer, has swung to a significant loss – and has meanwhile expanded production in the EU, including a new plant in Slovakia and contract manufacturing with Magna in Austria.

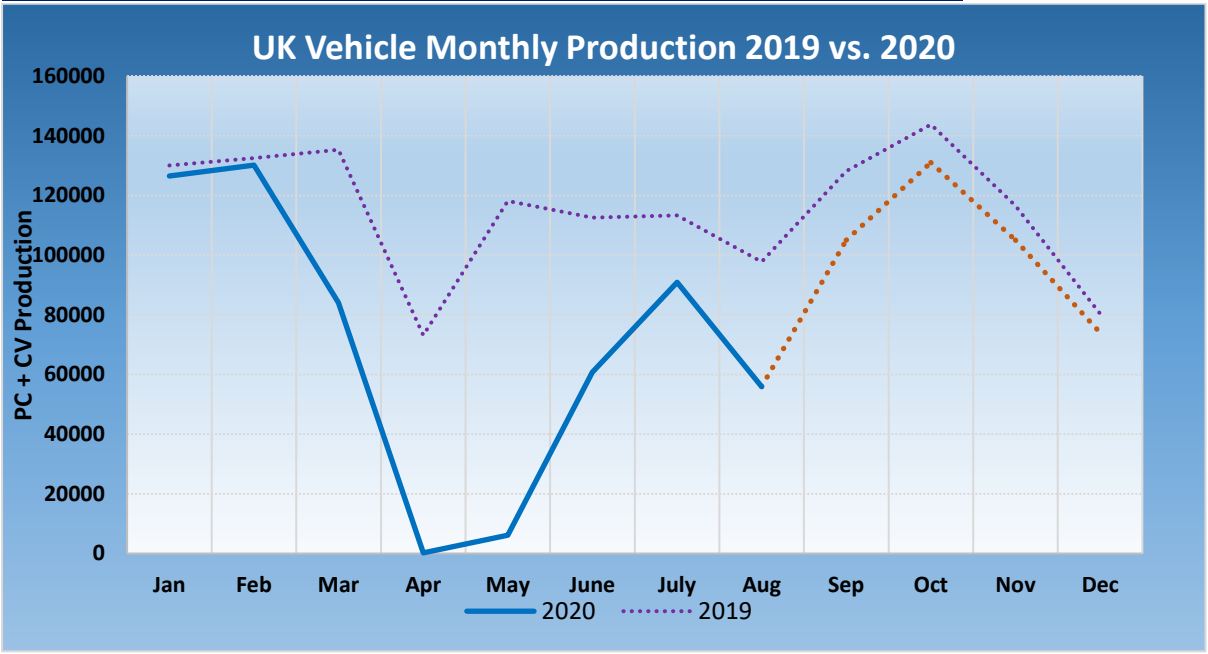
The potential for further UK plant closures cannot be ruled out, especially in the event of significant trade barriers.

Table 7.4 UK Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	130072	132537	135293	73133	118145	112571	113293	97709	128092	143756	116512	80392	1381505
2020	126516	130151	84058	212	6134	60738	90930	55954	105000	131000	105000	74000	969693
YoY % change	-2.7%	-1.8%	-37.9%	-99.7%	-94.8%	-46.0%	-19.7%	-42.7%	-18.0%	-8.9%	-9.9%	-8.0%	-29.8%

Source: SMMT, ECG Business Intelligence

Figure 7.3 UK Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)



Source: SMMT, ECG Business Intelligence

8. Italy

8.1 Italy Vehicle Demand Outlook

Table 8.1 Italy Automotive Growth Drivers & Headwinds

Growth Drivers	Headwinds
• Strong automotive stimulus package	• GDP to shrink by -10.5% in 2020 (OECD)
• EV sales have outperformed the market	• EU CO_2 emissions targets for 2020/21
	• Huge national debt of 180% of GDP

Our base case forecast for Italian new vehicle sales in 2020 is for a decline of 27% compared to 2019, and 29% in the worst case.

Italy's vehicle market was already in gradual decline before the crisis, from 2.19m passenger and commercial vehicles in 2017 to 2.13m in 2019. Like much of western Europe, it is a saturated and stagnant market, which has also faced wider macroeconomic challenges.

The crisis has compounded these issues. Italy was initially the most severely affected European country and imposed a strict lockdown on 9th March. Despite the scale of the impact, after eight weeks of lockdown, Italy began to lift restrictions in early May and car dealerships were allowed to reopen on 4th May.

After drastic falls in vehicle sales throughout the spring, sales started to slowly recover in summer, dropping 22% year-on-year in June and 11% in July. In August, by which time the government had introduced a stimulus programme for vehicle sales, monthly sales were roughly the same as in 2019. In September, the market saw a 10% rise year-on-year.

The €450m stimulus *Decreto Rilancio* package provides up to €3,500 for customers who scrap cars that are at least ten years old with vehicles that comply with Euro 6 costing up to €40,000 and with emissions of no more than 110 grams of CO_2/km. Car dealers will contribute €2,000 of the incentive money. EV and hybrid vehicles can now benefit from up to €10,000 in subsidies when scrapping an older vehicle. Furthermore, the government offers incentives of up to €10,000 for buyers of zero-emissions vehicles.

For the fourth quarter, we expect volumes to remain at or slightly below seasonally expected levels for the remainder of 2020. New Covid cases are now rising in Italy, but more slowly than in France, Spain or the UK. Italy has imposed some social restrictions, including on night life and hospitality, however the country should continue to see gradual recovery. In 2021, we expect a 15% growth regaining half of the ground lost in 2020.

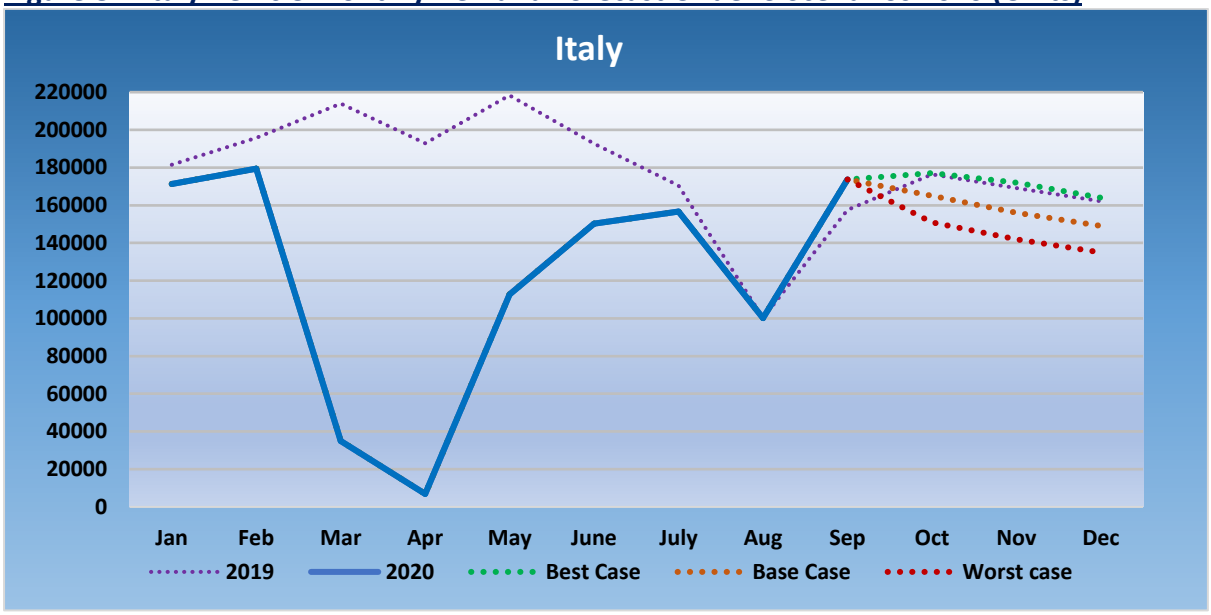
Over the longer-term horizon, we do not expect sales to approach pre-crisis levels until the end of the decade. Italy's economy remains extremely debt burdened with a potential banking crisis often said to be imminent. This constrains the overall economy and economic growth, ultimately impacting vehicle demand over the longer term.

Table 8.2 Italy Vehicle Monthly Demand Forecast Under 3 Scenarios 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	181496	195805	213929	192917	218297	192701	170529	100215	157509	176462	169019	162197	2131076
% change	-5.6%	-8.4%	-83.6%	-96.4%	-48.4%	-22.0%	-8.1%	-0.1%	10.2%				
2020	171277	179408	34983	6891	112670	150246	156640	100123	173632*				
Best										177000	172000	164000	1598890
% change										0.3%	1.8%	1.1%	-25.0%
Base										165000	156000	149000	1555890
% change										-6.5%	-7.7%	-8.1%	-27.0%
Worst										151000	142000	135000	1513890
% change										-14.4%	-16.0%	-16.8%	-29.0%

Source: ANFIA, ECG Business Intelligence

Figure 8.1 Italy Vehicle Monthly Demand Forecast Under 3 Scenarios 2020 (Units)



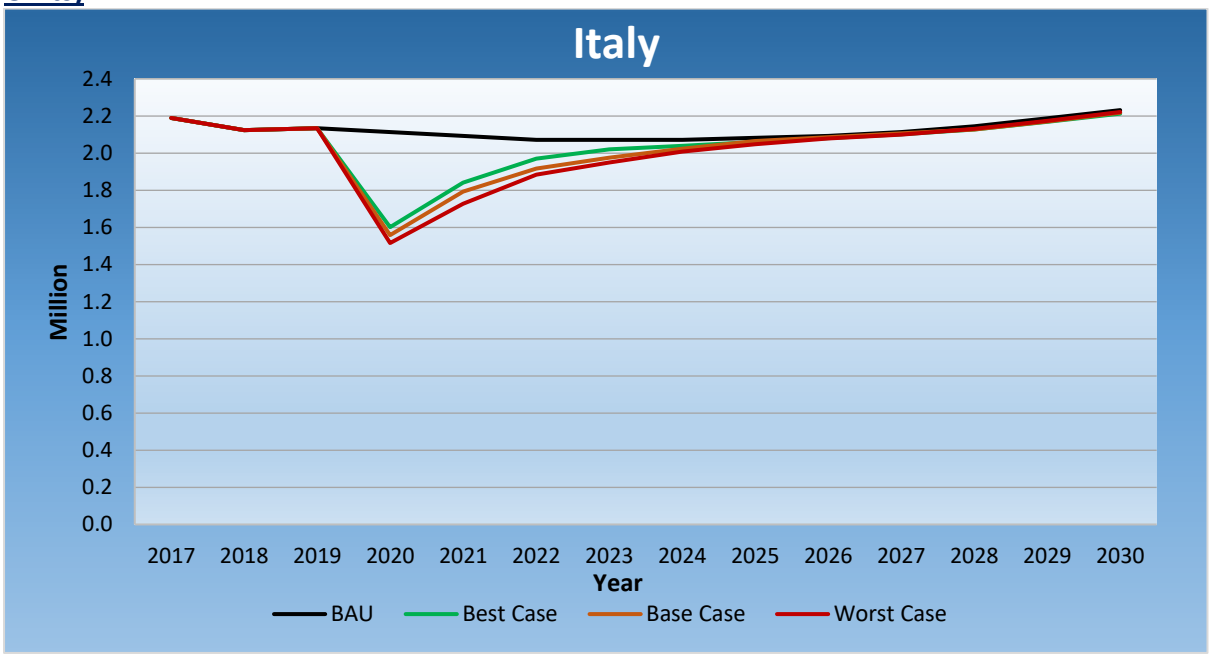
Source: ANFIA, ECG Business Intelligence

Table 8.3 Italy Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

Scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	2.19	2.12	2.13	2.11	2.09	2.07	2.07	2.07	2.08	2.09	2.11	2.14	2.19	2.23
Best	2.19	2.12	2.13	1.60	1.84	1.97	2.02	2.04	2.06	2.08	2.10	2.13	2.17	2.21
YoY % change		-3.00	0.50	-25.00	15.00	7.00	2.50	1.00	1.00	1.00	1.00	1.20	2.00	2.00
Volume +/-				-0.53	0.24	0.13	0.05	0.02	0.02	0.02	0.02	0.03	0.04	0.04
Base	2.19	2.12	2.13	1.56	1.79	1.92	1.98	2.02	2.07	2.09	2.11	2.13	2.17	2.22
YoY % change		-3.0	0.5	-27.0	15.0	7.0	3.0	2.5	2.0	1.0	1.0	1.0	2.0	2.2
Volume +/-				-0.58	0.23	0.13	0.06	0.05	0.04	0.02	0.02	0.02	0.04	0.05
Worst	2.19	2.12	2.13	1.52	1.73	1.88	1.95	2.01	2.05	2.08	2.10	2.13	2.17	2.22
YoY % change		-3.0	0.5	-29.0	14.0	9.0	3.5	3.0	2.0	1.5	1.0	1.5	2.0	2.2
Volume +/-				-0.62	0.21	0.16	0.07	0.06	0.04	0.03	0.02	0.03	0.04	0.05

Source: ANFIA, ECG Business Intelligence, Automotive from Ultima Media

Figure 8.2 Italy Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: ANFIA, ECG Business Intelligence, Automotive from Ultima Media

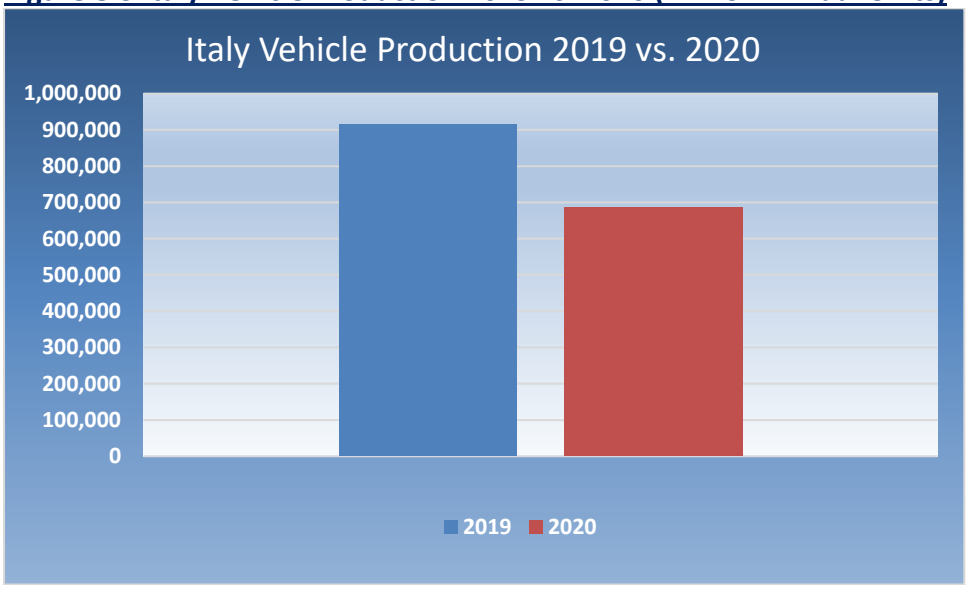
8.2 Italy Production And Export Outlook

Of the 915,305 total vehicles built in Italy in 2019, two-thirds were sold abroad, with the majority to southern Europe and the UK. For 2020, we expect production to decline 25% compared to 2019, though 2021 should see increases along with demand.

The majority of Italian production is from FCA plants, which includes smaller vehicles and some Jeep production. Italy also has lower volume premium vehicle output, including Maserati, Ferrari and Lamborghini.

The country has suffered from chronic under-utilisation of its plants. With the planned merger of PSA and FCA, the closure of factories in Italy is a strong possibility.

Figure 8.3 Italy Vehicle Production 2019 vs. 2020 (Million Annual Units)



Source: ANFIA, ECG Business Intelligence

9. Spain

9.1 Spain Vehicle Demand Outlook

Table 9.1 Spain Automotive Growth Drivers & Headwinds

Growth Drivers	Headwinds
• €3.75bn automotive stimulus package	• GDP shrinks by 11%-14% in 2020 (OECD)
• EV sales have outperformed the market	• Stimulus plan smaller than France and Italy
	• Strong used car sales undermine new sales
	• EU CO_2 emissions targets for 2020/21
	• High unemployment amongst the young
	• Covid spikes and local restrictions

Spain continues to be hard hit by the crisis, with a dire impact on its vehicle market. Our baseline forecast for 2020 is that new vehicle sales will decline by 30% compared to 2019, as a mild recovery over the summer struggles to gain pace in the fourth quarter. While there is some upside expected from automotive stimulus, the uncertainty in the market around the rise in coronavirus cases and the risk of new restrictions will weigh on demand.

Spain's vehicle sales had been relatively stagnant before coronavirus, growing slightly from 1.43m units in 2017 to 1.5m in 2019. Even in our pre-Covid business as usual forecast, we expected a 3% decline in the market in 2020, partly as a result of strong volumes of used car sales, rising costs related to CO_2 emission targets and relatively high levels of unemployment, especially among the young.

In the spring of 2020, Spain was one of the most severely affected by the coronavirus pandemic. In response, the government imposed one of the world's strictest lockdowns on 14th March for seven weeks until 1st May, closing all non-essential businesses including car dealerships. Consequently, vehicle sales declined dramatically in March through May compared to 2019, with a slight recovery in June with sales down 34.8%.

On 16th June, the Spanish government announced a €3.75 billion automotive stimulus package to focus on fleet renewal and competitiveness. However, the majority of this will be used to support the industry value chain – tier suppliers, retailers and other stakeholders – with just €230m allocated for fleet renewal and demand incentives.

The incentive falls between the French stimulus package (that incentivises all vehicles to some extent), and the German stimulus package (that only incentivises EVs and PHEVs). There is a scrappage scheme for vehicles over ten years old (seven years for light commercial vans) and replaced by a car of less than 120g CO_2/km, along with a purchase bonus for all powertrain types and up to €4,000 for electric vehicles. The manufacturer also makes a commensurate discount, capped at €1,000 for most electrified vehicles.

In July, vehicle sales did indeed respond well as the release of pent-up demand and the stimulus package led sales 1.4% above that recorded in June 2019. However, this bounce back

was short- lived, falling back in August with sales down 12.4% and in September by 14% compared to 2019. The slow recovery in part demonstrates the modest nature of the automotive stimulus package, as well as a slow recovery in the economy.

During August and September, the number of new Covid-19 cases recorded in Spain started to increase alarmingly. Authorities in Madrid, the worst affected area, imposed a new lockdown in 37 areas of the capital city, placing limits on travelling for local areas, on social gatherings and business hours. Such restrictions are likely to be extended to other areas.

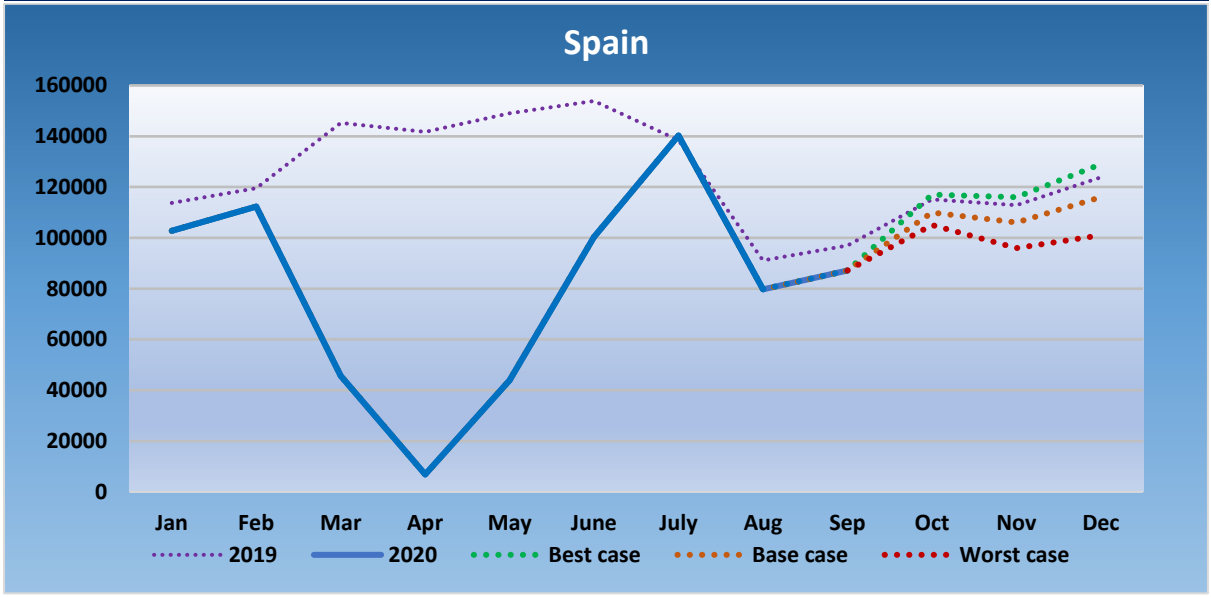
As a result, Spain is a long way from recovery and will feel severe impacts in the new vehicle market. As with other western European countries, declines will also be felt for several years, and 2019 sales volumes are not expected to be reached until the end of the decade.

Table 9.2 Spain Vehicle Monthly Demand Drop in 2019 vs 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	113762	119473	145193	141729	148971	153878	138388	91112	96978	115075	112865	123821	1501245
YoY % change	-9.7%	-6.0%	-68.5%	-95.1%	-70.5%	-34.8%	1.4%	-12.4%	-10.2%				
2020	102762	112294	45668	6890	43920	100356	140263	79775	87113				
Best										117000	116000	129000	1081041
YoY % change										1.7%	2.8%	4.2%	-28.0%
Base										110000	106000	16000	1051041
YoY % change										-4.4%	-6.1%	-6.3%	-30.0%
Worst										5000	96000	01000	1021041
YoY % change										-8.8%	14.9%	18.4%	-32.0%

Source: ANFAC, ECG Business Intelligence, Automotive from Ultima Media

Figure 9.2 Spain Vehicle Monthly Demand Forecast Under 3 Scenarios 2019 vs. 2020 (Units)



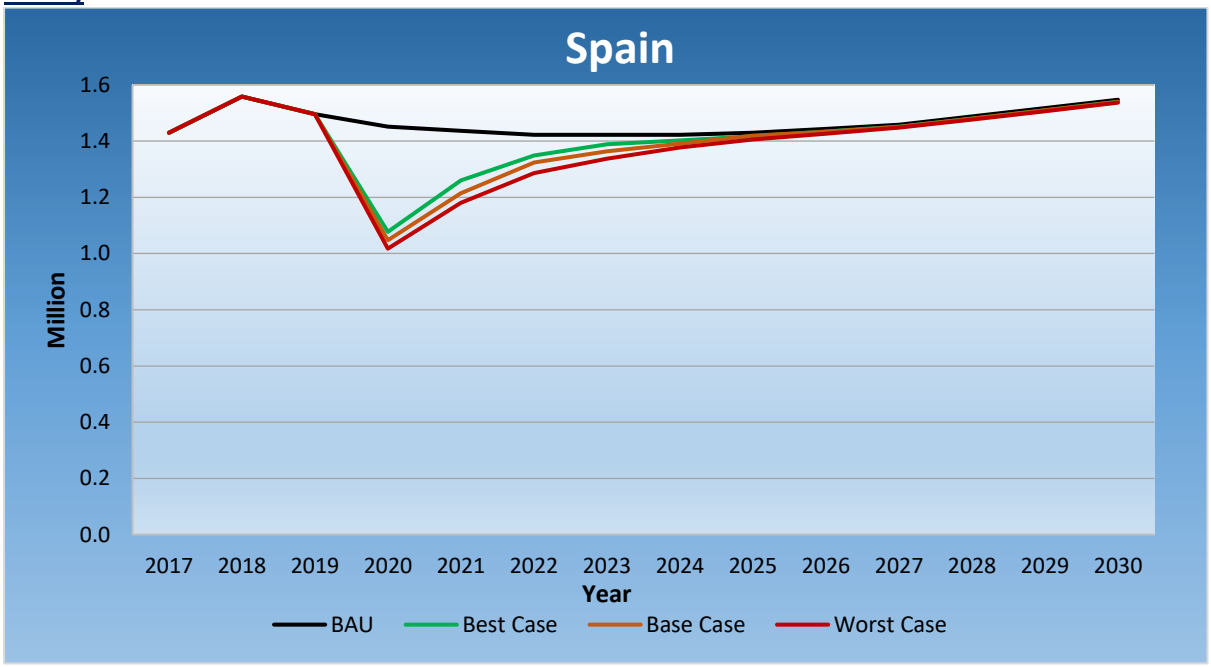
Source: ANFAC, ECG Business Intelligence

Table 9.3 Spain Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	1.43	1.56	1.50	1.45	1.44	1.42	1.42	1.42	1.43	1.44	1.46	1.49	1.52	1.55
Best Case	1.43	1.56	1.50	1.08	1.26	1.35	1.39	1.40	1.42	1.43	1.45	1.48	1.51	1.54
YoY % change		9.00	-4.00	-28.00	17.00	7.00	3.00	1.00	1.00	1.20	1.20	2.00	2.00	2.00
Volume +/-				-0.42	0.18	0.09	0.04	0.01	0.01	0.02	0.02	0.03	0.03	0.03
Base Case	1.43	1.56	1.50	1.05	1.22	1.32	1.36	1.39	1.42	1.43	1.45	1.48	1.51	1.54
YoY % change		9.0	-4.0	-30.0	16.0	9.0	3.0	2.0	2.0	1.0	1.2	2.0	2.0	2.0
Volume +/-				-0.45	0.17	0.11	0.04	0.03	0.03	0.01	0.02	0.03	0.03	0.03
Worst Case	1.43	1.56	1.50	1.02	1.18	1.29	1.34	1.38	1.41	1.43	1.45	1.48	1.51	1.54
YoY % change		9.0	-4.0	-32.0	16.0	9.0	4.0	3.0	2.0	1.5	1.5	2.0	2.0	2.0
Volume +/-				-0.48	0.16	0.11	0.05	0.04	0.03	0.02	0.02	0.03	0.03	0.03

Source: ANFAC, ECG Business Intelligence, Automotive from Ultima Media

Figure 9.3 Spain Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: ANFAC, ECG Business Intelligence, Automotive from Ultima Media

9.2 Spain Production And Export Outlook

Spain's production of 2.9m units in 2019 makes it Europe's second largest vehicle producer after Germany. Around 83% of production is exported, of which 91% of exports are destined for the EU and UK market. As with other European countries, total output will be dependent on recovery in the wider continent. We expect sluggish output in the fourth quarter below 2019 levels, while annual Spanish production will contract by nearly 29% compared to 2019.

Spain does have a competitive production base, but the majority of its carmakers are hard hit by the crisis, including SEAT, Renault, PSA, Opel and Ford, and could be forced to reduce capacity. Nissan has already confirmed that it would close its van plant in Barcelona (delayed from the end of this year to December 2021).

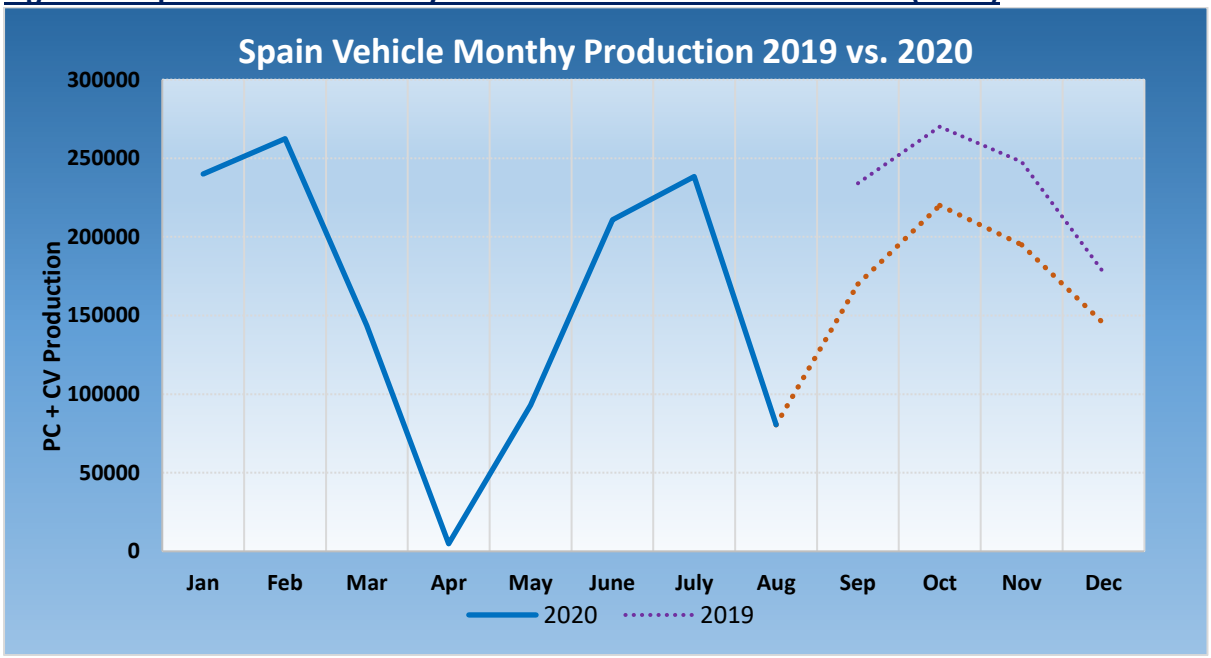
Table 9.4 Spain Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019									234108	270070	247655	177427	2820000
2020	240035	262449	143737	4844	92900	210,880	238,322	80,481	170000	220000	195000	145000	2003648
YoY % change									-27.4%	-18.5%	-21.3%	-18.3%	-28.9%

Source: ANFAC, ECG Business Intelligence

**Note monthly 2019 data not currently available*

Figure 9.4 Spain Vehicle Monthly Production Forecast 2019 vs. 2020 (Units)



Source: ANFAC, ECG Business Intelligence

**Note monthly 2019 data not currently available*

10. Other EU+EFTA

10.1 Other EU+EFTA Vehicle Demand Outlook

Other European countries besides the top five markets have also experienced sharp falls in 2020 compared to 2019. Across central and eastern Europe, which had initially seemed to avoid the worst of the crisis, sales were expected to outperform western Europe. They have somewhat – but most have also seen continuing declines only slightly less severe than in the larger European markets. Few of these countries are likely to have scope for significant automotive stimulus programmes.

Even in Sweden, which was notable for not imposing a strict national lockdown in the spring, sales fell by nearly 40% in the second quarter of the year compared to 2019. They have since started to recover but remain down by more than 18% year-on-year through September.

We expect overall sales declines across these smaller markets to be mainly in line with larger markets; in our base-case scenario, we expect a 20% fall in sales volumes during 2020 and a 25% fall in the worst-case scenario.

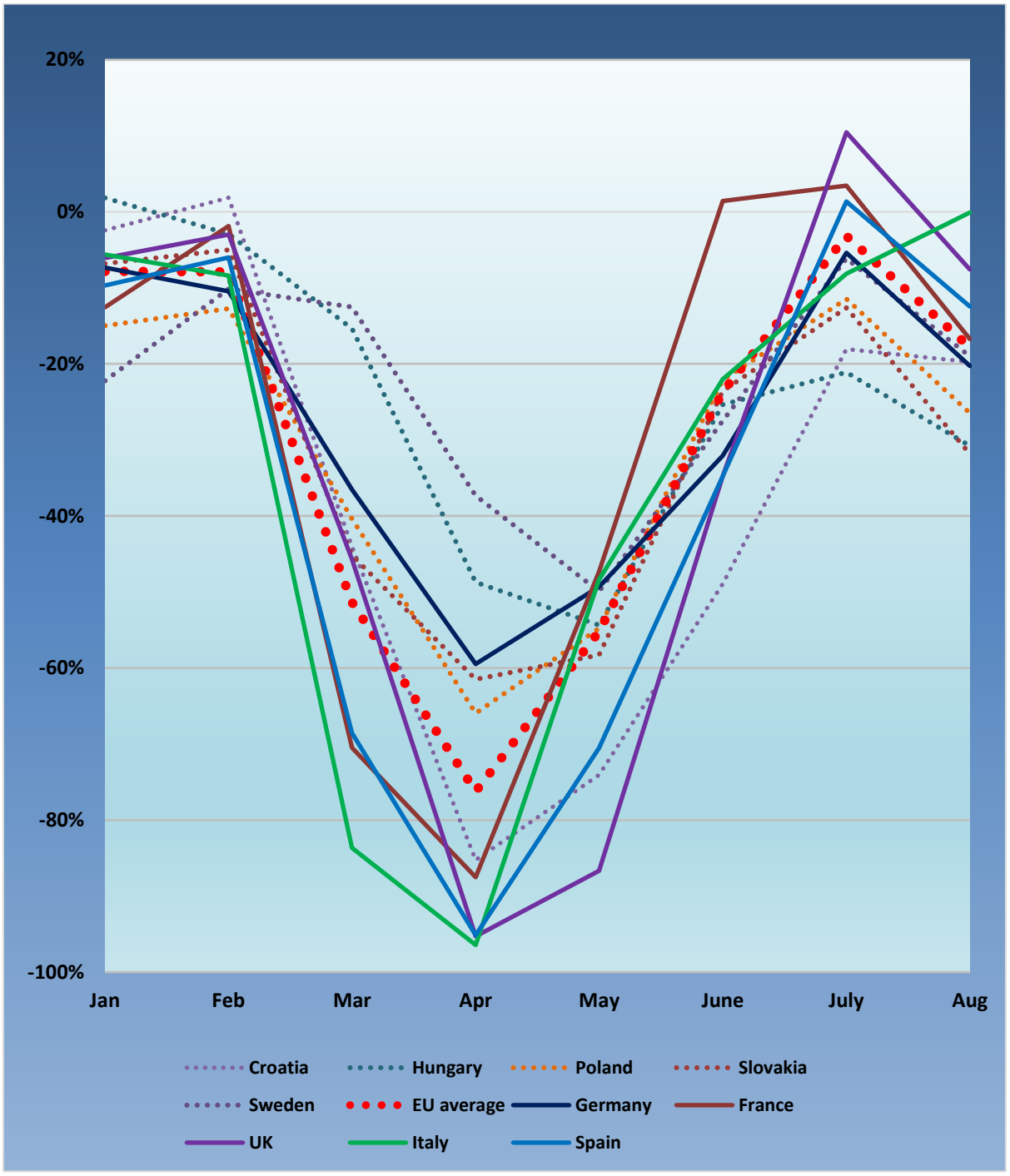
In key regions of central and eastern Europe, the virus has taken a worrying course. Countries such as the Czech Republic, Poland, Slovakia and Hungary are witnessing spikes in Covid cases and are re-imposing limits on social restrictions and could therefore suffer in potential localised lockdowns. But we do not foresee this having a significant impact on sales volumes – at least until the narrative seriously shifts towards further national lockdowns, which we think to be as unlikely at present in these countries as in the major European markets.

Table 10.1 Other EU + EFTA Vehicle Monthly Demand 2020 (Units, % fall)

	Jan	Feb	Mar	Apr	May	June	July	Aug
Austria	24973	13087	13888	23660	30845	35910	24584	24584
YoY % change	-14.6%	-52.7%	-62.8%	-36.5%	-13.3%	-5.8%	-16.5%	-28.5%
Belgium	60693	54614	33785	7179	41038	57685	52003	43128
YoY % change	1.0%	-5.2%	-47.1%	-88.4%	-31.5%	-2.4%	-1.3%	-21.8%
Bulgaria	2727	2745	2123	1160	1526	2823	3775	2382
YoY % change	-0.6%	-23.0%	-50.4%	-68.9%	-66.1%	-34.4%	0.5%	-34.1%
Croatia	4466	4392	3321	1436	2691	4780	5856	3260
YoY % change	-2.4%	1.9%	-44.0%	-85.3%	-74.1%	-48.9%	-18.1%	-19.7%
Cyprus	1366	1211	824	298	980	1194	1278	877
YoY % change	13.4%	4.5%	-22.0%	-82.1%	-26.9%	-11.5%	-17.0%	8.5%
Czech Rep.	21081	19379	15423	12315	15202	22905	21798	18518
YoY % change	-3.4%	-9.7%	-36.3%	-51.9%	-44.2%	-9.6%	-8.9%	-33.2%
Denmark	21930	17876	18320	12358	13522	20542	21188	20645
YoY % change	-10.8%	-17.5%	-39.3%	-36.5%	-39.9%	-15.9%	12.9%	-6.7%
Estonia	2838	2058	2039	1068	1299	1846	2378	1798
YoY % change	1.9%	-8.0%	-25.5%	-64.9%	-62.1%	-38.9%	-18.1%	-39.2%
Finland	12471	9615	10738	7244	6313	9146	10078	9838
YoY % change	-8.6%	1.4%	-2.2%	-37.0%	-50.2%	-27.3%	-3.0%	-17.8%
Greece	10525	8551	4175	2885	5024	9054	10308	7378
YoY % change	5.7%	3.7%	-59.1%	-77.8%	-65.7%	-35.3%	-17.3%	-29.1%
Hungary	12305	13285	13806	7766	7938	12407	14044	12835
YoY % change	1.8%	-2.9%	-15.3%	-48.7%	-54.4%	-25.4%	-21.1%	-30.8%
Ireland	37244	16474	7908	671	2343	1678	25880	6722
YoY % change	-2.7%	-7.5%	-60.5%	-93.9%	-71.9%	-32.1%	-12.7%	-5.8%
Latvia	1731	1557	1268	871	951	1461	1749	1373
YoY % change	-9.9%	-2.4%	-35.8%	-55.2%	-54.9%	-27.1%	-13.2%	-27.3%
Lithuania	5108	4998	3362	1714	2339	3212	3809	3996
YoY % change	19.1%	12.3%	-35.2%	-70.6%	-59.3%	-44.1%	-11.0%	-11.0%
Luxembourg	4952	5293	3134	1382	3400	5232	6159	4072
YoY % change	4.5%	-4.5%	-50.5%	-77.9%	-44.0%	-10.5%	15.4%	-4.1%
Netherlands	53203	36743	37131	20181	18900	29744	40754	32071
YoY % change	-8.9%	-2.4%	-22.3%	-50.4%	-58.1%	-41.5%	3.0%	-21.2%
Poland	45427	45095	35605	18857	25677	42611	50080	40988
YoY % change	-15.0%	-12.7%	-40.4%	-66.0%	-54.8%	-22.1%	-11.5%	-26.5%
Portugal	17504	23038	12399	3803	7579	13678	18101	14662
YoY % change	-8.5%	5.0%	-56.6%	-84.6%	-71.6%	-54.0%	-16.9%	-8.6%
Romania	14152	10437	8004	5183	8521	11876	14504	12844
YoY % change	-13.9%	-27.3%	-33.2%	-52.4%	-44.6%	-26.2%	-42.7%	-52.5%
Slovakia	7556	8032	5624	3860	4668	8227	9056	7763
YoY % change	-6.8%	-5.0%	-45.2%	-61.5%	-58.3%	-23.6%	-12.6%	-31.8%
Slovenia	7331	6446	3332	2222	5789	7463	7163	5098
YoY % change	-9.6%	-13.8%	-61.4%	-70.3%	-32.7%	-7.3%	2.5%	-11.1%
Sweden	18466	24094	30805	21985	18607	27640	24721	29002
YoY % change	-22.2%	-10.1%	-12.5%	-37.3%	-49.9%	-27.5%	-6.1%	-19.0%
Iceland	865	797	1174	449	637	918	1569	668
YoY % change	-15.0%	-14.5%	-7.0%	-66.9%	-71.0%	-38.2%	36.3%	-28.6%
Norway	12945	13496	15724	10283	10855	15018	12007	14499
YoY % change	5.2%	-6.1%	-30.2%	-34.0%	-38.5%	-25.9%	-7.5%	-17.7%
Switzerland	21526	22090	20204	11425	16174	27151	25528	18829
YoY % change	-9.6%	-11.3%	-38.8%	-64.2%	-49.2%	-15.3%	-12.4%	-16.1%

Source: ACEA, Various National Automotive Associations

Figure 10.1 Top 5 Europe Countries vs. Select Other EU+EFTA Vehicle Monthly Demand Drop in 2020 vs 2019 (% fall)



Source: ACEA, Various National Automotive Associations

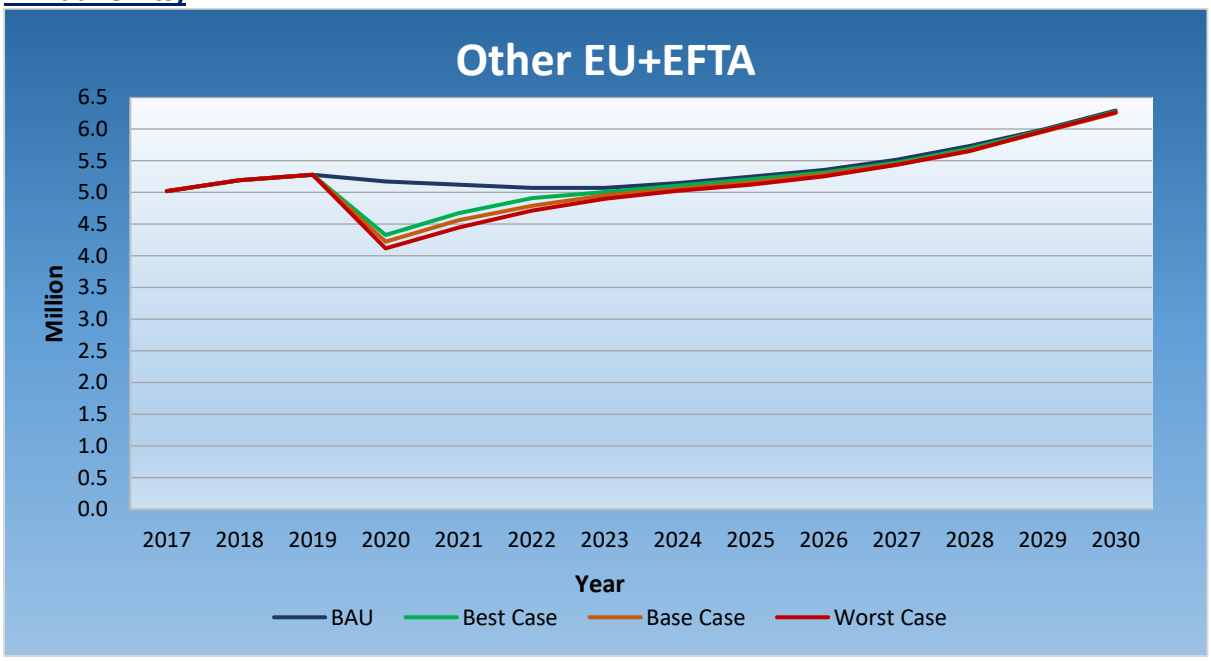
10.2.Other EU+EFTA Vehicle Demand Forecast 2017-2030

Table 10.2 Other EU+EFTA Vehicle Demand Forecast Under 3 Scenarios 2017-2030 (Million Annual Units)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BAU	5.02	5.20	5.28	5.17	5.12	5.07	5.07	5.15	5.25	5.35	5.51	5.74	5.99	6.29
Best Case	5.02	5.20	5.28	4.33	4.67	4.91	5.01	5.11	5.21	5.31	5.47	5.69	5.98	6.28
YoY % change		3.50	1.60	-18.00	8.00	5.00	2.00	2.00	2.00	2.00	3.00	4.00	5.00	5.00
Volume +/-				-0.95	0.35	0.23	0.10	0.10	0.10	0.10	0.16	0.22	0.28	0.30
Base Case	5.02	5.20	5.28	4.22	4.56	4.79	4.96	5.06	5.16	5.29	5.44	5.66	5.96	6.25
YoY % change		3.5	1.6	-20.0	8.0	5.0	3.5	2.0	2.0	2.5	3.0	4.0	5.2	5.0
Volume +/-				-1.06	0.34	0.23	0.17	0.10	0.10	0.13	0.16	0.22	0.29	0.30
Worst Case	5.02	5.20	5.28	4.12	4.45	4.71	4.90	5.02	5.13	5.25	5.44	5.65	5.97	6.26
YoY % change		3.5	1.6	-22.0	8.0	6.0	4.0	2.5	2.0	2.5	3.5	4.0	5.5	5.0
Volume +/-				-1.16	0.33	0.27	0.19	0.12	0.10	0.13	0.18	0.22	0.31	0.30

Source: ACEA, ECG Business Intelligence, Automotive from Ultima Media

Figure 10.2 Other EU+EFTA Vehicle Demand Drop Under 3 Scenarios 2017-2030 (Million Annual Units)



Source: ACEA, ECG Business Intelligence, Automotive from Ultima Media

11. Conclusions – Riding Out The 2nd Wave

Europe is in a critical period of the Covid crisis. The spectre of a second wave, further social restrictions and the potential for wider lockdowns loom large over the continent. Even if hospitalisation and death rates remain relatively subdued, these limits on economic activity – as well as their impact on consumer confidence – do threaten to hold back the recovery in vehicle sales and production.

However, as we alluded, our prediction is that second national lockdowns are unlikely to happen for a multitude of social, scientific and political reasons. We do not expect a return to the near complete hibernation of automotive production and sales activity endured during the spring.

However, any level of restriction only adds further weight to the economic elephant in the room. GDP is certain to contract sharply. Unemployment will inevitably increase as businesses shed jobs or even fail. Consumer confidence will suffer, and customers are likely to delay big ticket purchases such as vehicles.

The impact upon the automotive sector is clear, and in particular the European region will be in for a long recovery.

Uneven Automotive Industry Stimulus

Most European markets experienced some demand recovery in June and July as social restrictions were lifted, no matter whether they had automotive stimulus plans in place or not. However, now that this pent-up demand has unwound, sustaining demand recovery will become increasingly dependent in the short term upon government automotive stimulus packages.

These stimulus measures have varied considerably in scope, financing and ambition. France and Spain have introduced ambitious programmes, albeit Spain has targeted the value chain more than end consumers. Italy's stimulus plan is modest in budget but supports a wider variety of vehicle purchases. The German stimulus plan is widely considered to be disappointing as it only incentivises EVs and PHEVs. The UK government has dismayed the industry by not introducing any automotive stimulus plan at all.

The most successful aspect of these stimulus packages appears to be the subsidies to incentivise low emission vehicles which have caused EVs and PHEVs to outperform the market.

Manufacturers And Suppliers Will Feel Pain

The crisis will take a hard hit on profits and investment. To survive the downturn, many OEMs and tier suppliers have accessed extensive credit lines from their banks and investors. That debt will ultimately have to be repaid through future profits, and will be a persistent drag on capital spending, R&D and growth within the automotive industry over the coming years.

For example, there will be a shift of focus and priority onto day-to-day cash flow and shorter-term business survival. So, while investment in electrification is generally being maintained – driven in part by regulatory requirements and supported further by automotive stimulus plans – investment in other technologies, notably autonomy and shared mobility, are being cut back.

The automotive industry is also fundamentally a volume-driven business. The current business model relies upon the huge investment for new platforms spread across very high volume of vehicles. Lower global volumes, which we don't expect to reach pre-crisis levels until at least 2023, will significantly reduce profit margins.

As a result, the trend towards mergers and acquisitions, which was evident even pre-crisis, is likely to accelerate to cut costs, enhance technical synergies and improve financial resilience.

And yet, there is hope. The growth of the crisis will put brakes on economic output but barring national lockdowns should not drastically reduce sales. A wider pivot towards personal mobility and away from public transport should support vehicle sales.

Meanwhile, EV and PHEV vehicle sales continue to outpace the market, while the crisis has pushed OEMs and dealers to move faster towards online vehicle sales and distribution models.

A more sustained recovery in demand should also start to take place in 2021. Overall sales volumes will still be well below the rates pre-crisis, however the market should be able to operate closer to normal as European governments avoid lockdowns, and get better at managing the virus. Until then, as with the battle against Covid-19, the European automotive industry will remain in survival mode.

12. Glossary

ACEA	European Automobile Manufacturers Association
BAU	Business as Usual
CO_2	Carbon Dioxide
CV	Commercial Vehicle
EFTA	European Free Trade Area
EU	European Union
EV	Electric Vehicle
GDP	Gross Domestic Product
ICE	Internal Combustion Engine
OECD	Organisation for Economic Cooperation & Development
OEM	Original Equipment Manufacturer
OICA	Organisation Internationale des Constructeurs d'Automobiles
PC	Passenger Car
PHEV	Plug-in Hybrid Electric Vehicle
R&D	Research & Development
SUV	Sports Utility Vehicle
WHO	World Health Organisation
YoY	Year on Year

13. Appendix

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