Industry Top Trends Update

Autos

Rising costs and demand pressure reduce ratings cushion

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What's changed?

Pressure on sales forecasts. Supply bottlenecks amidst steady demand will create a marginal decline in light vehicle sales in 2022 versus 2021. Though we still expect a gradual supply increase in 2023, affordability risks could curb pent-up demand.

Supply chain disruptions will delay improvement. Chip and other component shortages will hamper supply and reduce visibility on near-term production, which will disrupt cash flows and delay recovery in cash flow metrics by up to six months.

Upside from electric vehicles (EVs). With recent large private sector investments in EV chargers and charging infrastructure, EV sales could exceed our base-case of 15% of U.S. light vehicle sales by 2025 (versus around 6% the first quarter of 2022).

What to look out for?

Higher costs. If the current inflationary phase extends beyond early-2023, it could get very difficult to pass through higher costs to customers in 2023. Cost increases limit outlook revisions from stable and add downside risks to several issuers, especially if cost reduction prospects appear limited.

Suppliers face near-term rating downside. Auto-suppliers will continue to bear the brunt of supply chain shortages and of higher costs. Powertrain suppliers will pursue mergers and acquisitions (M&A) to build out EV capabilities.

Extent of used car price decline will impact new vehicle demand. Used vehicle prices will moderate over the next 12-18 months as affordability challenges emerge and trade-in values decline. Large declines in used prices will shift demand away from new to used, and hence reduce pricing benefits for automakers.

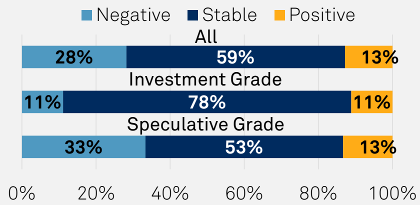
What if there's a recession?

Margin pressure will intensify. Demand for the highest-margin vehicles could shrink. Though we do not assume any material shifts away from trucks to sedans, consumers could downsize towards entry-level products within each segment.

Liquidity cushion will influence downgrade risks. Despite lower fixed cost absorption, most large and mid-tier issuers have low inventory and sufficient liquidity to weather a mild recession, or a scenario where U.S. sales in 2023 plateau at 2022 levels before making a slow recovery in 2024. However, a few lower rated suppliers and discretionary aftermarket suppliers may face distress.

Acceleration of consolidation, especially within the supply base. With potential for even lower valuations, we could see an acceleration of M&A across strategic and private-equity owners, to enhance scale and insulate some traditional suppliers from disruption trends.

Outlook Distribution

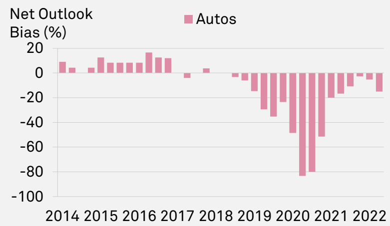


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	9	31	40
Downgrades	0	3	3
Upgrades	2	3	5

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias



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- Industry Top Trends 2022: Autos, Jan. 25, 2022