S&P Global Ratings

Autos

Sluggish sales limit ratings upside

This report does not constitute a rating action.

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What's changed?

High interest rates will limit sales growth through 2025. As U.S. consumers' excess savings get depleted and delinquency rates on auto loans now exceed pre-pandemic levels, we expect flattish auto sales through 2025.

Rising pricing pressure and ongoing inflation implies lower ratings headroom. With rising inventories, softening fleet demand, and demand shifts to used vehicles, a 10% decline is likely in average new vehicle transaction prices from 2023 levels through the end of 2025 (down 3% through June 2024). Wage inflation will limit margin upside for suppliers, particularly if automakers get tougher on cost pass-throughs.

Further downside for electric vehicle (EV) sales. Recently announced higher tariffs on batteries and critical minerals will likely push up input costs for U.S. EV manufacturers, delaying automakers from hitting profit targets and translating to higher EV prices for end customers until alternative supply options are identified. This, in turn, could disincentivize purchases at a time when U.S. EV sales have become sluggish as pure battery EV (BEV) (excluding plug-in) share fell from 7.5% in 2023 to 6.9% in the first half of 2024.

What to look out for?

Inventory levels at certain outliers. We will monitor if outliers like Stellantis and Ford exercise production discipline to reduce inventory levels towards 50-60 days. This is critical to reducing pressure to raise incentives, hence protecting their margins somewhat, even if consumer demand weakens over the next 18 months.

Tougher financing conditions. Auto loan delinquencies over 90 days have risen to above pre-pandemic levels, with buyers in the age group of 18-29 representing the highest delinquency rate. We believe subprime borrowers are delaying vehicle purchases for now as higher borrowing costs and inflationary pressures affect their overall spending.

Chinese response to protectionist measures. We expect continued trade tensions catalyzing more partnerships, joint ventures, and co-investments to develop alternative supply chains, particularly for battery-grade lithium, nickel, graphite, and cobalt outside China to avert higher costs.

What are the key risks around the baseline?

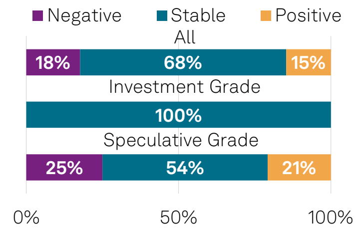
Uncertainty around EV demand could force strategic missteps. Some automakers may not allocate appropriate capital towards hybrid technology, mid-cycle portfolio refreshes on internal combustion engines, or towards material improvements in cockpit experience and charging experience. This would weaken their competitive position.

Used car prices drop beyond our expectations for a 5%-7% fall in 2024. In this scenario, many consumers who paid above MSRP during the pandemic will find themselves in a negative equity position because their trade-in vehicles are the most likely to have suffered significant drops in value.

CDK's dealer management system's software outage. Lack of lost sales recovery in July or further such disruptions pose downside risks to our base-case for U.S. auto sales.

Rating Trends

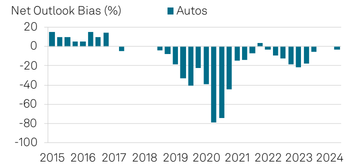
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	10	24	34
Downgrades	0	0	0
Upgrades	0	4	4

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.8	1.4
EBITDA growth (Y/Y%)	3.5	4.4
EBITDA margin (%)	12.4	11.6
Capex growth (Y/Y%)	4.1	10.9
Debt/EBITDA (x)	1.0	4.6
FFO/Debt (%)	58.0	10.9
FOCF/Debt (%)	20.8	3.0

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Global Auto Sales Forecasts: Slower EV Growth Offers Temporary Relief To Legacy Automakers, April 25, 2024

Credit FAQ: Why China Is At The Center Of Global Auto Conversations, June 11, 2024

Tougher Pricing Conditions In 2024 Could Cramp U.S. Auto Sector Ratings Headroom, Feb. 12, 2024