The Impact of the COVID-19 on Automobile Industry

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Many Chinese automobile factories closed and suspended production amid the COVID-19, the deadly coronavirus. This report focuses on the impact of the shutdown of Chinese manufacturing factories on global automobile markets during the epidemic. According to the analysis, shutdown at Chinese automobile factories have disrupted the global supply chain, caused auto sales to drop, and led large automakers to seek overseas alternative sources for preventing a shortage of parts. The outbreak of COVID-19 will cause a severe impact on the production and sales of the automobile industry in the short term. Its “butterfly effect” may change the global automobile industrial patterns in the long term.

China has become the world's second-largest economy in 2019 and played an important role in the global supply chain and international trade. There are more than 100,000 local automobile part makers in China, which produce over 80% of parts in the world. Chinese automobile parts companies exported $60 billion in 2019, according to China’s General Administration of Customs[1]. The data showed that Chinese parts market is a significant part of the global capacity allocation and China has become a major supplier of automobile parts in the global market. Under the impact of COVID-19, the automobile industry has been hit severely in Wuhan and the surrounding areas in Hubei province. Wuhan, the automobile center with about 50% of its manufacturing sector
related to the automobile industry, is not only a large city with a population of over 10 million but also an important part in the Chinese supply chain. The shutdown in Wuhan and other important manufacturing bases will undoubtedly lead to the interruption of the supply chain in the global automobile industry.

The quarantine caused by COVID-19 will cause insufficient supply of cars and auto parts, resulting in the disruption of global automobile supply chains. Due to the delayed resumption of factories in major automobile manufacturing areas and the travel restrictions, the supply of automobile parts and production will decrease dramatically. The global automobile supply chain is facing the risk of breaking. Hyundai Motor, the world’s fifth-largest automaker, announced that it closed its car production in South Korea due to a shortage of parts supplied from China. Korean automobile sectors use 29% of components from China, which means it will be hit hard by the disruptions in the supply chain in China. Hyundai Motor became the first factory to idle its plants outside China and it demonstrated the scale of damage for other automakers amid COVID-19. In China, many foreign automobile plants have already shut down because of COVID-19, including factories run by Toyota, Nissan, Tesla, Ford and PSA, which will increase the challenge of the automobile industry in Asia, Europe and the United States. S&P Global Rating forecasted the production of automobile in China will decrease by 15% in the first quarter in 2020 amid COVID-19 outbreak[2]. If the factories still keep closed and extend the period of suspension, it will make it harder for the automobile industry to get rid of recession.
Under the negative impact of insufficient supply in the automobile supply chain, automobiles sales, leasing and financing are facing difficult challenges. Many auto dealers have suspended operations and postponed auto shows and promotions, which reduced their business performance. The potential consumers, especially those in the central and western regions in China, will reduce their demand for buying private cars in the short term. Shutdown at Chinese factories have hit automakers in different ways, resulting in losing sales in China, the world’s largest automobile market now. China's Association of Automobile Manufacturers said that automakers sold less than two million vehicles in January 2020, down 18% from a year ago[3]. The continuation of the "stay-at-home" environment during the duration of COVID-19 will also reduce the demand for ride-hailing services and affect the sales of new energy cars. New energy cars have become a major part of ride-hailing services now. Sales of new energy cars dropped by 54% in January 2020, source from CNN[4]. Moody's Investors Service cut its forecast for global automobiles sales to a 2.5% drop in 2020 under the negative impact of COVID-19[5]. Automobile leasing, financing and other related business sectors will also face challenges due to reduced automobile sales and weak desire of travel. CCXI said loan volume from automobile financing companies will decline by more than 20% in the first quarter of 2020 in the whole world[6].

To prevent shortage of automobile parts and production stocks, the large global automakers have to seek alternative sources and suppliers overseas in the near future. They may re-arrange their parts production to avoid supply chain risks caused by the
COVID-19 in China. A problem in the supply chain may cause widespread damage and quickly cause millions of dollars in production loss because the automobile industry is a capital-intensive industry. Today, global automakers are scrambling to find parts from alternative solution. They will rethink the problem about how much their factories’ production rely on China and try to transfer some production links to Southeast Asia, South America or other regions for keeping a balanced supply. CNBC said Fiat Chrysler, Italian famous automaker, has sought alternative suppliers. Llamasoft, a company dealing with supply chain issues, has helped automakers find alternative parts around the world. In the long term, global automobile industrial patterns may be changed under the “butterfly effect” of COVID-19.

In conclusion, the quarantine under COVID-19 has made a negative impact on the global automobile industry. In the short term, production and sales of automobiles will be reduced due to the insufficiency in the supply chain in China. Other parts in the automobile sectors such as leasing and financing will also suffer a lot. In the long term, “butterfly effect” from COVID-19 will appear more and more obvious and may change the global automobile supply chain.
References


