

# Forecasting Covid-19's Effect on the Auto Industry

The coronavirus pandemic is expected to result in a prolonged downturn on the sector, but automakers can make moves now to mitigate the impact.

We modeled three scenarios, and a prolonged slowdown seems most likely

	Short setback	Prolonged slowdown	Deep recession
<b>Duration of containment measures</b>	■ About 1 quarter	■■ About 2 quarters	■■■+ More than 3 quarters
<b>Market rebound</b>	Fast 	Slow 	No full rebound 
<b>Economic hit</b>	● Mild recession	● Recession comparable to 2008-09	● Deeper and longer recession than 2008-09

Sources: LMC Automotive; expert interviews; Bain analysis

2020 impact (excluding additional government measures/industry incentives)

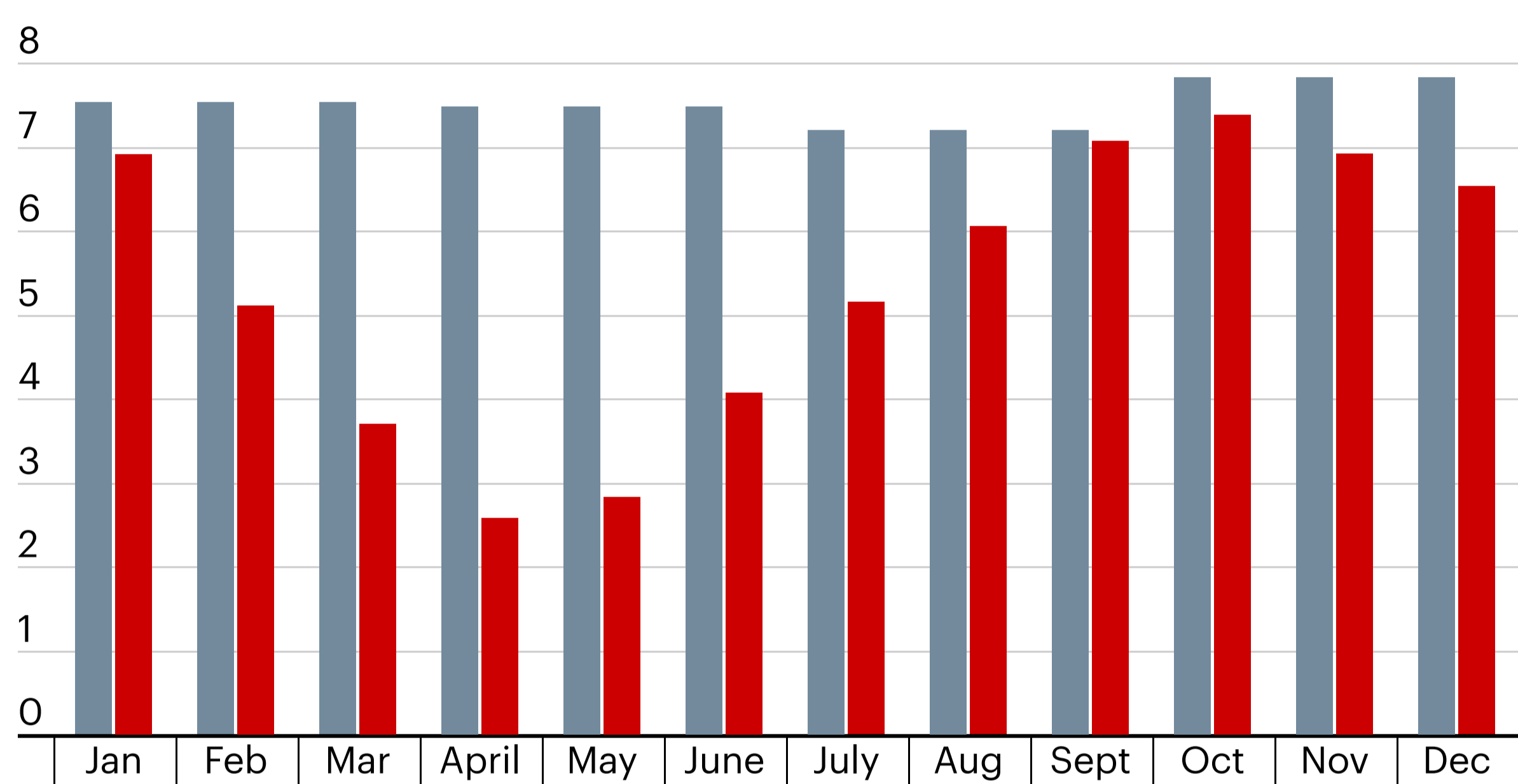
<b>Volume</b>	-17% 	-29% 	-40% 
<b>Profit</b>	-35% to -45% 	-70% to -90% 	Heavy losses 

Sources: LMC Automotive; China Passenger Car Association; Bloomberg; Bain analysis

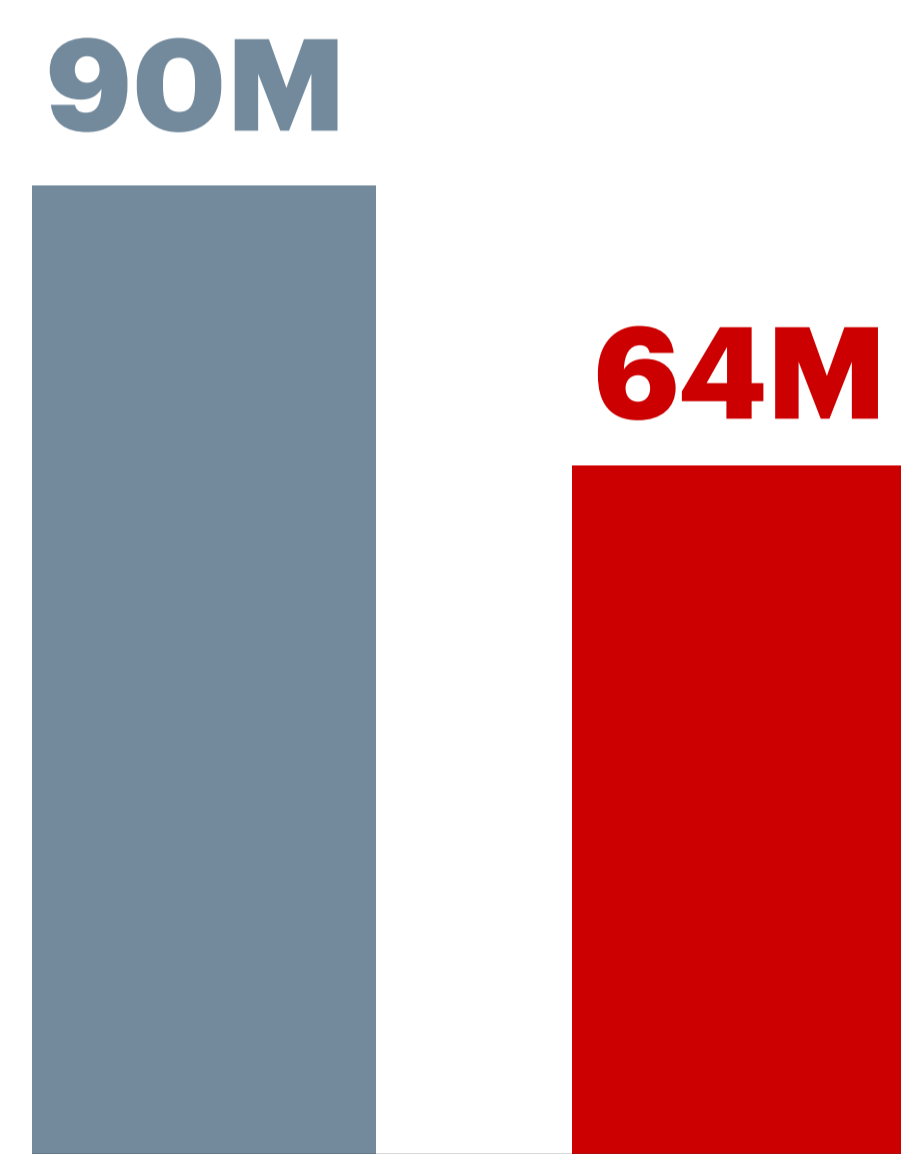
## In a prolonged slowdown, the sales rebound will be constrained by recession

■ Precrisis forecast ■ Prolonged-slowdown forecast

Global light vehicle sales forecast for 2020, in millions



Total 2020 sales

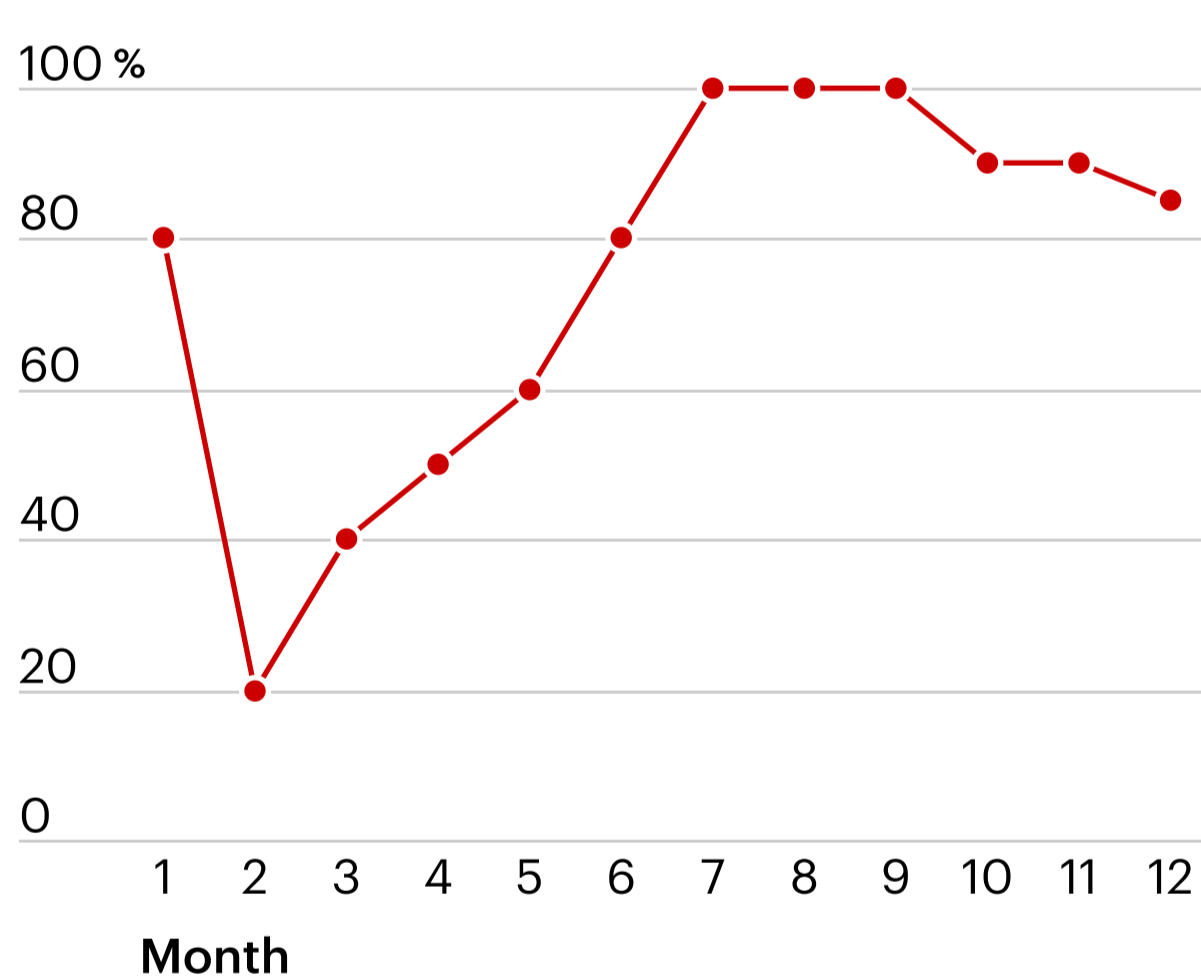


## Recovery will vary by nation

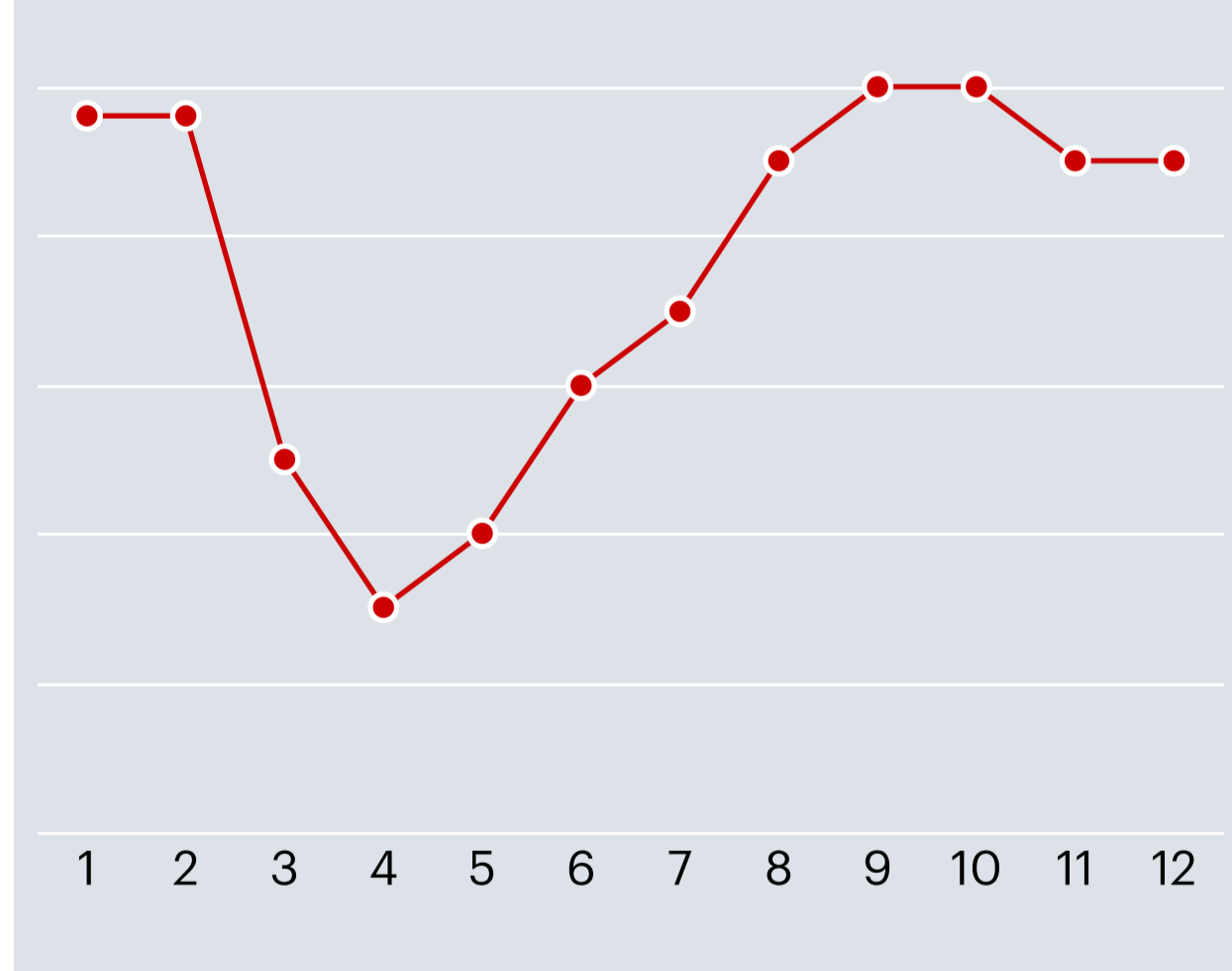
The shape of the recovery curve reflects each country's actions in response to Covid-19, as well as hospital capacity

Shapes of market contraction and normalization

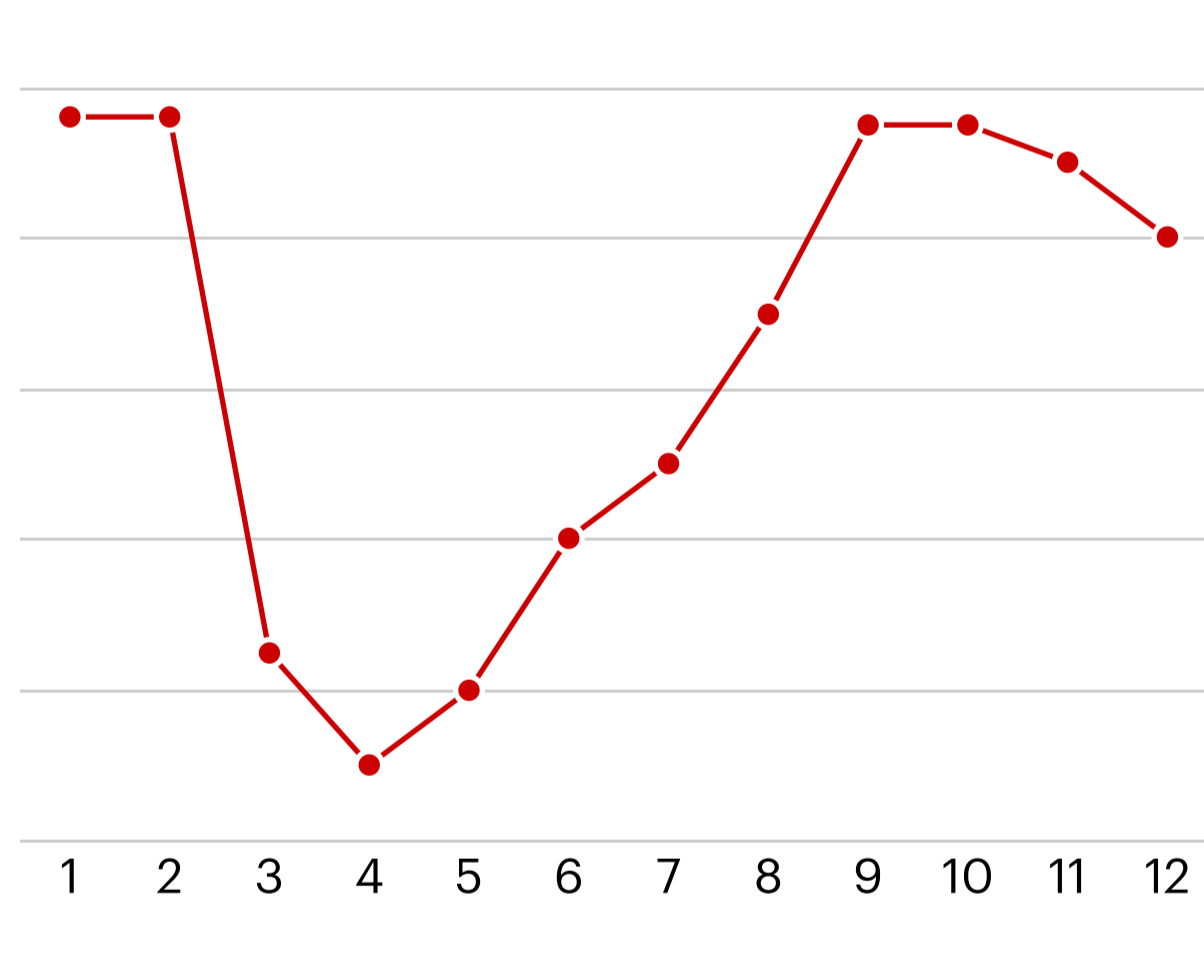
"V shape"



"Bathtub"



"Extended bathtub"

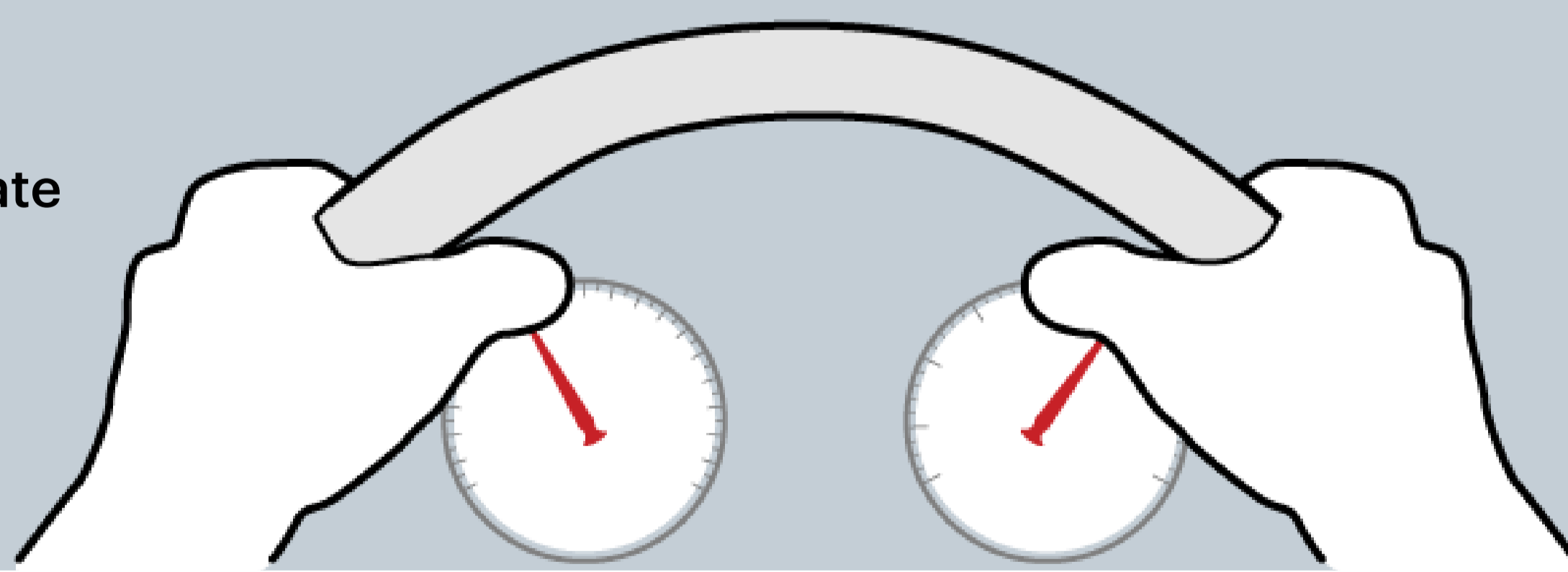


Sources: Johns Hopkins University; LMC Automotive; Bain COVID-19 Task Force; Bain analysis

## Three steps to manage through the crisis and beyond

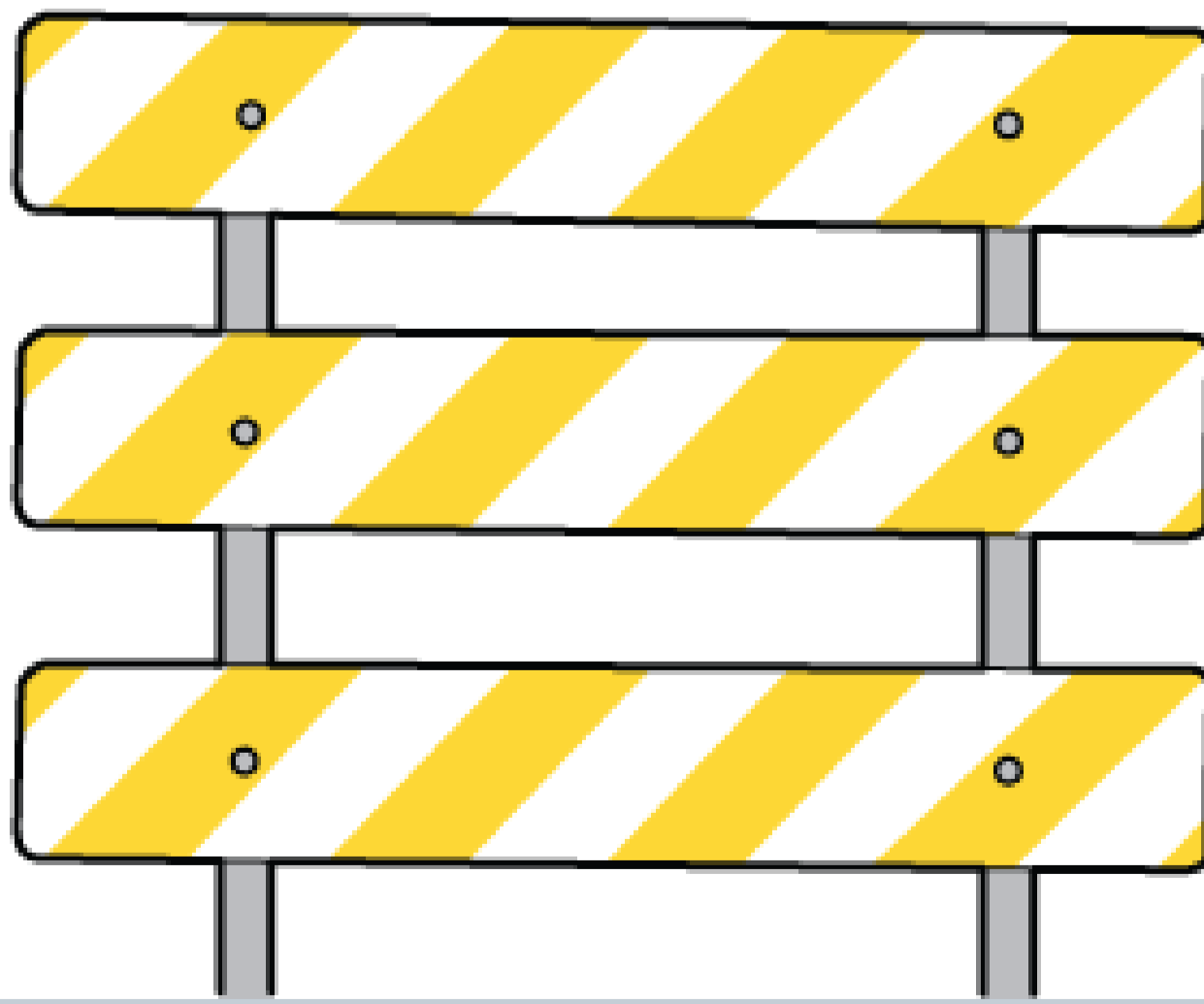
### Handle the immediate crisis

- Protect and talk to employees
- Tightly manage cash
- Move to short-time working if appropriate
- Postpone models and projects
- Restart sales
- Stabilize the dealer network



### Get rid of structural barriers

- Simplify radically (models, drive units, optional equipment, etc.)
- Rebalance the "make vs. buy" production mix
- Review the investment portfolio
- Consider moving work in-house, outsourcing and offshoring
- Optimize dealer network and increase online sales
- Accelerate efficiency programs



### Accelerate into the recovery

- Use targeted M&A to unlock new profit pools and build new capabilities
- Rigorously review strategy for in-house production
- Double-down on future-oriented technologies, including electrification, connectivity and autonomous driving
- Build charging infrastructure for electric vehicles
- Prepare for a new normal after the crisis

