



**Industry Trends  
Automotive**

**Focus on sector business  
performance and credit risk**

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# Automotive industry performance per market

December 2021

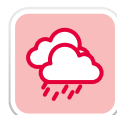
Austria		Russia		Australia	
Belgium		Slovakia		China	
Czech Republic		Spain		Hong Kong	
Denmark		Sweden		India	
France		Switzerland		Indonesia	
Germany		Turkey		Japan	
Hungary		United Kingdom		New Zealand	
Ireland				Singapore	
Italy		Brazil		South Korea	
Netherlands		Canada		Taiwan	
Poland		Mexico		Thailand	
Portugal		USA		United Arab Emirates	

On the following pages we indicate the general outlook for each sector featured using these symbols:



#### Excellent

The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend



#### Poor

The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend



#### Good

The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend



#### Bleak

The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend



#### Fair

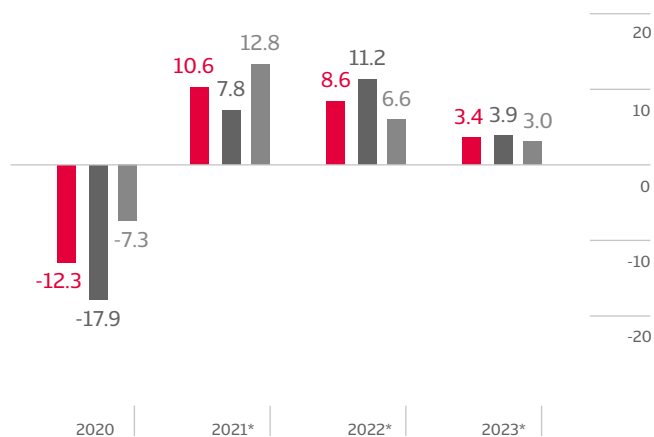
The credit risk situation in the sector is average / business performance in the sector is stable

# Global automotive – performance at a glance

## Global automotive output

Semiconductor shortage avoids a strong recovery in 2021

y-on-y, % change



\*forecast

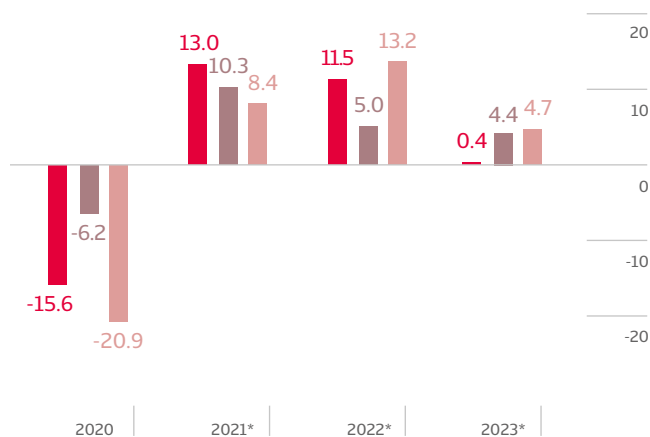
Source: Oxford Economics

■ Motor vehicles & parts ■ Motor vehicles ■ Bodies & parts

## Automotive output per region

2021 rebound in Europe lags behind other regions

y-on-y, % change



\*forecast

Source: Oxford Economics

■ Americas ■ Asia-Pacific ■ Europe

## Global automotive

### Automotive growth drivers

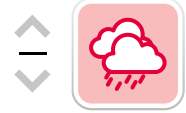
- Global pent-up demand for new cars, after sales deteriorated sharply in 2020 due to the pandemic.
- Government schemes support the recovery, also backing the transition to lower emission vehicles and to e-mobility in many markets.
- Robust growth outlook for hybrid and electric vehicles. Their share of global vehicle sales is expected to increase from 12% in 2020 to 17% in 2021, and to 49% in 2030.
- Low vehicle density and a growing middle-class provide ample room for catch-up growth in many emerging markets.

### Automotive constraints

- Prolonged semiconductor shortages and/or another surge of the coronavirus pandemic could delay vehicle production recovery in 2022, deteriorating the credit risk situation of many suppliers.
- Complex global supply chains remain susceptible to disruptions triggered by protectionism and geopolitical risks (e.g. the Sino-US trade conflict).
- The shift to e-mobility poses a major challenge for the bulk of small- and medium-sized suppliers. Many could lack the technological and/or financial means to climb up the value chain, forced to leave the market in the coming years.
- In the ongoing race for innovation (e.g. connected and autonomous driving), established automotive businesses face increasing competition from large technology companies and start-ups.

# Brazil

## Economic uncertainty hinders external financing for businesses



In H1 of 2021, new passenger car registrations increased 33% year-on-year, but were still 18% lower than in H1 of 2019. Subdued consumer sentiment and high unemployment had a negative impact on sales and margins. That said, automotive businesses active in the commercial vehicle/truck segment benefited from increased demand (e.g. from agriculture and e-commerce companies), leading to revenue growth and higher profitability compared to their peers in the passenger car segment.

Semiconductor shortage, higher inflation and expenses for restructuring have put pressure on the profitability of automotive businesses, resulting in higher credit risk. While the weaker currency exchange rate helps exporters, it has increased import prices for chips and other materials, negatively affecting operating costs.

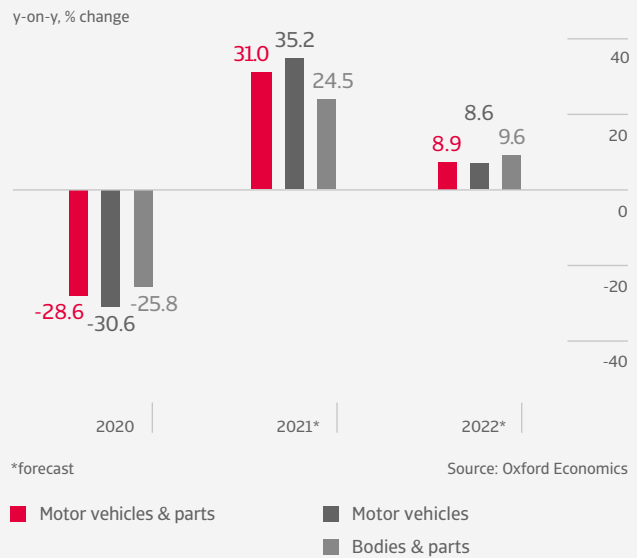
Performance in the coming months will remain impacted by the lack of semiconductors and elevated input costs, while idle capacity will remain high. At the same time, the renewal of a government scheme to reduce working hours and salaries should partially mitigate pressure on businesses' results.

Payments in the automotive industry take about 90 days on average. Currently it is expected that both payment delays and insolvencies will not increase sharply in the coming twelve months.

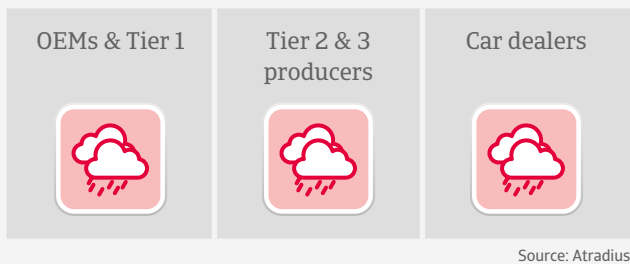
Due to low cash generation, automotive businesses will rely even more on working capital lines to reinforce their cash position and to protect their liquidity. While Original Equipment Manufacturers (OEMs) and large Tier 1 businesses can count on intercompany loans from their parents abroad, most suppliers will continue to apply for bank loans. However, they could face difficulties in obtaining external financing, given the uncertain outlooks for the Brazilian economy and the sector performance.

For the time being, our sector assessment remains "Poor" and our underwriting stance rather restrictive. Downside risks remain for the industry, as it is highly dependent on the future interest rate development and related bank loan conditions, as well as on consumer confidence and household purchasing power.

### Brazil automotive output



### Performance forecast along subsectors



### Brazil automotive sector - credit risk assesement

Poor

Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase  
 increase  
 stable  
 decrease  
 big decrease

Source: Atradius

# China

## Long payment periods put pressure on smaller suppliers



Chinese automotive output is forecast to increase 10% in 2021 and by about 4% in 2022. After a 6.5% decrease last year, car sales are expected to grow about 6% in 2021, and 7.5% in 2022. Due to higher production and sales, profit margins of many automotive businesses rebounded in H1 of 2021.

However, Original Equipment Manufacturers (OEMs) have had to reduce production due to semiconductor shortages. This affects deliveries of Tier 2 & 3 suppliers, leading to slower cash collection. Should the chip shortage last in 2022, businesses in this segment could face increasing payment delays and defaults, as many of them show lower margins and tighter liquidity compared to OEMs and Tier 1 companies.

The electric vehicles segment is a promising market in the long-term. However, the government has announced to gradually phase-out subsidies for e-mobility. A consolidation process is ongoing, and we expect that more low-cost suppliers that produce basic parts and have widely benefited from subsidies in the past will leave the market. Only those businesses with access to external funding and the ability invest in R&D constantly will survive.

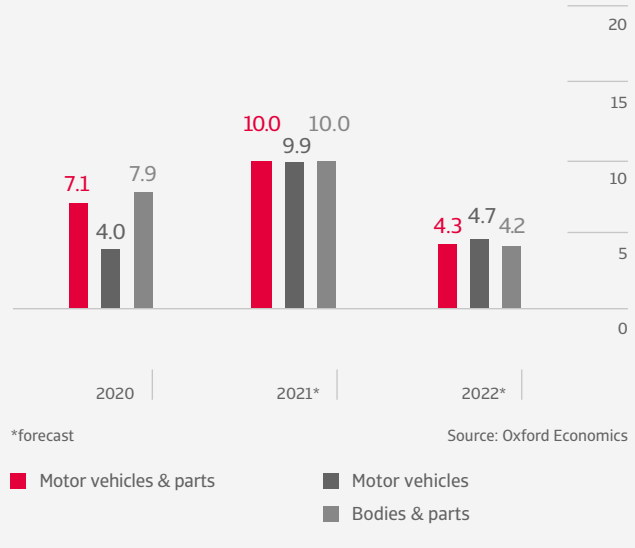
With 90 - 120 days on average, the overall payment period in the industry is quite long. Larger car producers tend to pay suppliers

slowly, usually with longer payment terms and bank drafts. This adds additional pressure to the margins and the capital base of smaller and/or private-owned suppliers.

Due to their financial strength, our underwriting stance remains generally open for OEMs and Tier 1 suppliers. However, we are more cautious with Tier 2 & 3 suppliers, as lower production due to semiconductor shortage and a long payment cycle squeeze the margins and liquidity of smaller businesses. Small car dealers have recorded slim margins due to discount rates needed to stimulate sales after the slump in 2020. Fierce competition and the tight liquidity situation of the mostly private-owned businesses in this segment remain issues.

### China automotive output

y-on-y, % change



### Performance forecast along subsectors



### China automotive sector - credit risk assesement

Fair



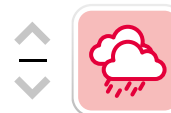
Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	- Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	- Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

# Czech Republic

## A sharp increase in insolvencies expected



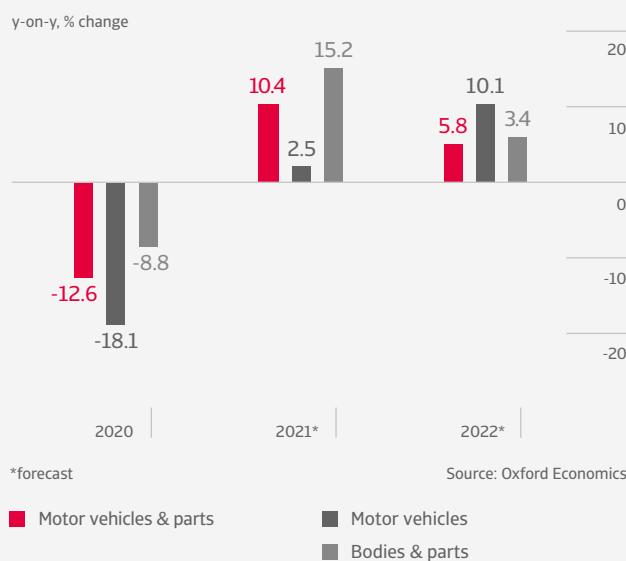
After contracting 18% in 2020, Czech motor vehicles output is forecast to rebound by only 2.5% in 2021, as car manufacturers have been forced to curb production due to shortage of semiconductors and other components. Since Q2 of 2021 turnover has started to decline for Original Equipment Manufacturers (OEMs) and suppliers alike, expected to decrease by about 30%-40% this year. Profit margins of businesses have started to deteriorate due to higher costs for raw materials, energy and labour, while increased interest rates weigh on highly leveraged businesses. At the same time, another major surge of coronavirus cases and subsequent restrictions remain downside risks.

Payments in the industry take 60 days on average, and the number of non-payments and insolvencies has been low so far, due to government support and the rebound seen in early 2021. Currently most businesses still hold enough cash to meet their liabilities, but their cash flow will get under strain in the coming months. Both payment delays and insolvencies are expected to increase by up to 30% in the coming twelve months, as government support will be phased out, and ongoing issues (semiconductor shortage, high input prices) will persist into 2022. Larger producers are expected to remain resilient, with many of them being part of an international group. However, the credit risk of smaller and mid-sized suppliers will increase, in particular of

businesses which are highly leveraged and/or have high external financing needs.

Our underwriting stance is generally cautious for the industry. All businesses are assessed on an individual basis, with respect to their financial position and performance outlook. Many suppliers are facing the need for additional investments in order to cope with the shift from combustion engines to e-mobility. Not all of them will be able to cope with this challenge, and some Tier 2 & 3 suppliers will be forced to leave the market in the coming 2-3 years. In the car dealing segment the situation is currently stable, as many businesses are able to compensate lower sales volumes with higher prices.

### Czech Republic automotive output



### Performance forecast along subsectors



### Czech Republic automotive sector - credit risk assesement

Poor



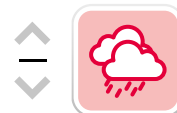
Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	- Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		- Insolvencies over the next 12 months

big increase   
 increase   
 stable   
 decrease   
 big decrease

Source: Atradius

# France

## Cash flow and margins of many suppliers under pressure

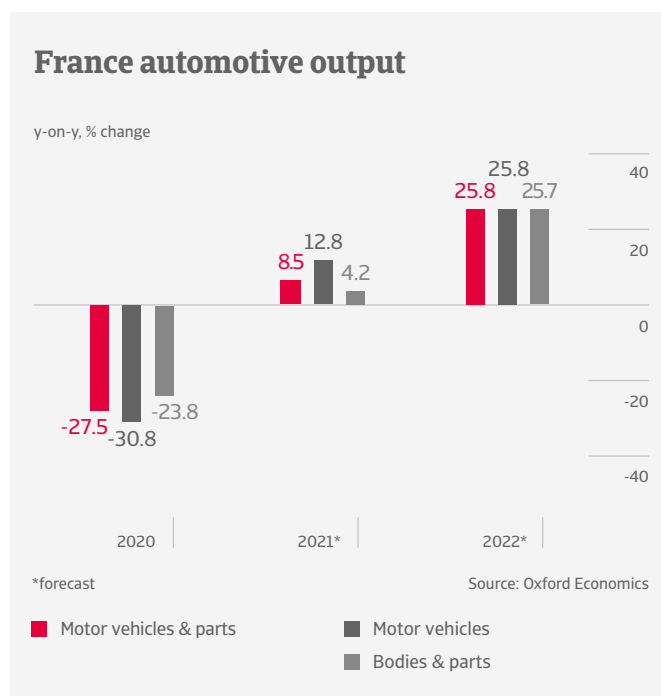
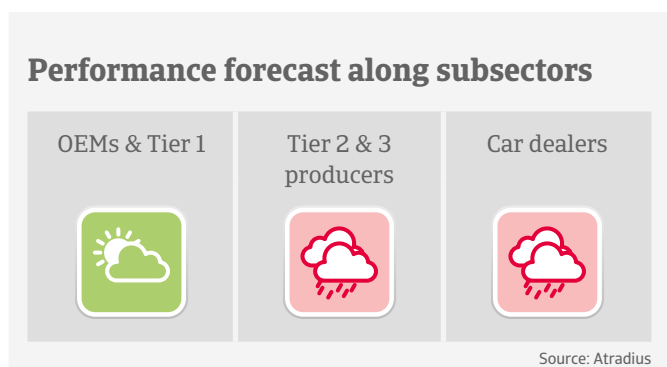


After contracting 27.5% in 2020, French automotive output is forecast to rebound by only 8.5% in 2021, as the current semiconductor shortage impacts production. Original equipment manufacturers (OEMs) and larger Tier 1 suppliers still perform rather well in the currently difficult market environment, and remain financially resilient. However, the situation is different for Tier 2 & 3 suppliers, which had to cope with liquidity strains during the 2020 downturn. As the chip shortage has disturbed the supply chain, businesses in this segment face a lack of planning reliability. Additionally, suppliers suffer from increased raw material costs (e.g. metals and plastics) and higher energy prices. All this has a negative effect on cash flow and margins of many Tier 2 & 3 businesses, only partly mitigated by ongoing government support (e.g. furlough schemes lowering wage bills).

In the car dealers subsector, businesses selling second-hand cars and electrical vehicles are able to maintain profit margins. However, the whole segment is impacted by delays in new car deliveries and lower demand from companies. Additionally, OEMs are downsizing their sales networks.

Payments in the industry take 60 days on average, and the number of non-payments and insolvencies has decreased since the

spread of the coronavirus pandemic in early 2020, as massive government support (fiscal spending and tax breaks) have bolstered the financial strength of businesses. However, payment delays will rise in 2022, and business failures could increase up to 50% in the coming twelve months, mainly affecting smaller and medium-sized Tier 2 & 3 suppliers. The short-term credit risk in this segment largely depends on the duration of the current semiconductor shortage and the future development of raw materials prices. Due to the ongoing shift towards e-mobility, those smaller suppliers that are heavily reliant on combustion engines (e.g. foundry work) will most probably have to leave the market in the coming years. Our underwriting stance remains generally restrictive for Tier 2 & 3 suppliers and car dealers.



### France automotive sector - credit risk assesement

Poor

Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius



# Germany

## Sector assessment downgrade as suppliers face major issues



After contracting 28.7% in 2020, German motor vehicles output is forecast to decrease again in 2021, as the current semiconductor shortage severely affects production. Domestic production of passenger cars declined 38% year-on-year in October 2021, while new car registrations decreased 35%.

Profit margins of businesses remained stable in H1 of 2021 due to the rebound in Q1, but are expected to deteriorate in the coming months, with Tier 2 & 3 businesses mainly affected. Even suppliers that do not require semiconductors for their own manufacturing process suffer from the “stop-and-go” production by Original Equipment Manufacturers (OEMs). Most suppliers have to be prepared to deliver parts and components just in time - as soon as OEMs resume/increase their production. Therefore they have to maintain or even increase their stocks during OEM production shortcuts, which results in ongoing high fixed costs and declining revenues. At the same time, suppliers have to cope with sharply increased costs for raw materials (e.g. steel, plastics) and fuel/energy.

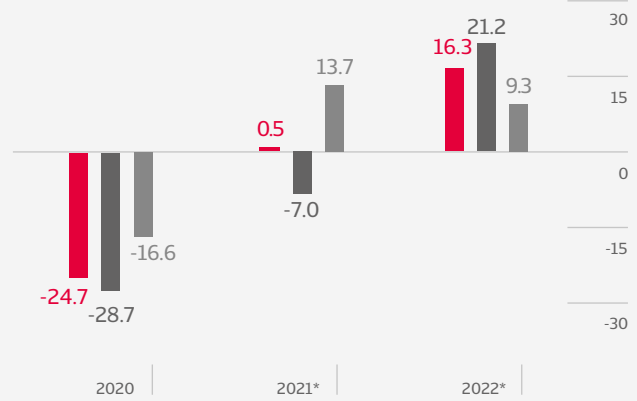
Tier 1 and larger Tier 2 businesses generally have high facilities and good access to capital markets. However, suppliers at the lower end of the value chain face increased gearing and higher dependency on bank loans, often with tight covenants. Payments

in the industry take 60 - 90 days on average, and payment behaviour has been good over the past two years. While insolvencies decreased in 2020 and in H1 of 2021 due to a bankruptcy moratorium and government support, a major increase is expected in the coming twelve months. Mainly affected will be those Tier 2 & 3 suppliers that suffer most from the current car production interruption. A prolonged semiconductor shortage in 2022 remains the main downside risk for the insolvency development.

Due to the ongoing production delays, input price increases, the expected surge in business failures, and challenges for suppliers to cope with the shift towards e-mobility, we have recently downgraded our sector assessment from “Fair” to “Poor”.

### Germany automotive output

y-on-y, % change



\*forecast

Source: Oxford Economics

■ Motor vehicles & parts

■ Motor vehicles

■ Bodies & parts

### Performance forecast along subsectors

OEMs & Tier 1

Tier 2 & 3 producers

Car dealers



Source: Atradius

### Germany automotive sector - credit risk assessment

Poor



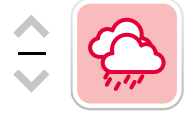
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
<b>-</b> Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	<b>-</b> Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	<b>+</b> Insolvencies over the last 12 months
		<b>-</b> Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

# Italy

## Shift to e-mobility is a major challenge for many suppliers



Italian car production already decreased in H2 of 2018 and in 2019, with a major 20% contraction in 2020 due to the pandemic. While it rebounded in H1 of 2021, production has slowed down again since Q3, mainly due to semiconductor shortages, and is expected to contract 2% this year. After the merger of PSA and FCA to Stellantis a restructuring process is underway in the industry to create synergies and savings, which could impact the future of several car plants in Italy.

Disruptions in car manufacturing (e.g. "stop-and-go" production) have a negative impact on the whole supply chain. Many suppliers additionally suffer from increased raw material costs (e.g. for steel, plastics and resin) and higher energy prices. Profit margins of Tier 2 & 3 businesses have started to deteriorate due to lower revenues and higher production costs, while most Tier 1 suppliers still show good solvency and acceptable gearing.

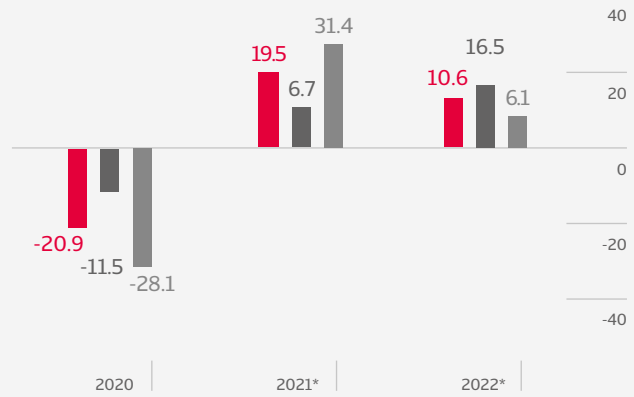
Payments in the industry take 75 days on average, and payment behaviour returned to normal levels in early 2021 after a deterioration in 2020. It is expected that automotive insolvencies will increase by about 5%-10% in the coming twelve months, mainly affecting smaller suppliers that suffer from production disruptions and higher input costs. Another issue is the expiry of government

measures (e.g. bank loans with state guarantee). The number of business failures could be even higher, if semiconductor shortage and production shortfalls last in 2022.

Due to the production disruptions, modest rebound in short-term demand and the elevated credit risk amid suppliers, our underwriting stance remains rather restrictive. Regarding e-mobility, the current government schemes for electric cars (Ecobonus) are only temporary and rather insufficient to boost sales. At the same time, many Italian suppliers show a technological gap compared to their European peers. It is expected that stronger businesses will be able to invest and reconvert their plants towards e-mobility, while other suppliers will have to leave the market in the coming years.

### Italy automotive output

y-on-y, % change



\*forecast

Source: Oxford Economics

■ Motor vehicles & parts

■ Motor vehicles

■ Bodies & parts

### Performance forecast along subsectors



Source: Atradius

### Italy automotive sector - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase

increase

stable

decrease

big decrease

Source: Atradius

# Japan

## Stable credit risk for the time being, but downside risks remain

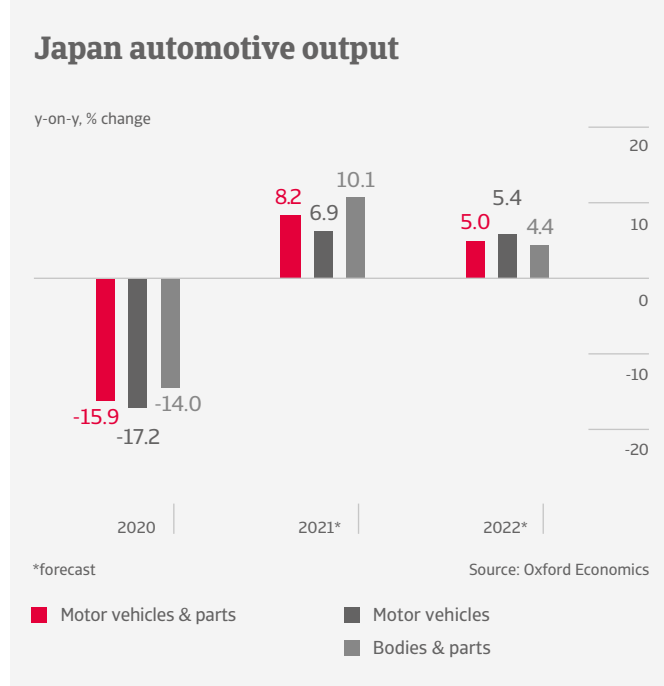


After contracting 15.9% in 2020, Japanese automotive output is forecast to rebound by about 8% in 2021 and 5% 2022. After a 17.2% decrease last year, new car sales are expected to recover by only 4% in 2021, affected by lower supply due to semiconductor shortages, and a resurgence of coronavirus cases in Japan. In 2022, domestic car sales are forecast to grow 7%.

The current shortage of semiconductors has led to lower output by large Original Equipment Manufacturers (OEMs) since August. Japanese OEMs are additionally affected by the closure of car part plants in Southeast Asia due to a recent surge of coronavirus cases in the region. Higher costs for semiconductors have led to decreasing margins of Japanese small- and medium-sizes suppliers.

Regarding e-mobility, the government has raised subsidies for electric vehicles (EV), and aims to increase the number of EV charging stations to 150,000 by 2030. The major OEMs support e-Mobility Power, a joint venture established to construct, maintain and operate charging stations and related electrical infrastructure. Joint ventures and mergers among smaller suppliers are expected to increase in the coming years, in order to overcome technological shortcomings, and to raise more funding for R&D investment.

Japanese automotive businesses are not overly indebted, and there is still room for refinancing, as banks are generally willing to provide loans. Payments in the automotive industry take about 30 - 60 days on average. There was no notable increase in protracted payments in 2020 and in H1 of 2021, and no change is expected, as the rebound should gain momentum next year. Insolvencies are forecast to level off in the coming twelve months. However, there is still the downside risk of a prolonged semiconductor shortage in 2022, coupled with persistently high raw material prices. This could additionally strain the already thin margins of smaller suppliers. It could also trigger a longer credit cycle, leading to a deterioration of payment behaviour, and more business failures among Tier 1 & 2 businesses.



### Performance forecast along subsectors

OEMs & Tier 1	Tier 2 & 3 producers	Car dealers

Source: Atradius

### Japan automotive sector - credit risk assesement

Fair

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase   
 increase   
 stable   
 decrease   
 big decrease

Source: Atradius

# Mexico

## Recovery of businesses' margins and cash flow has slowed down



In H1 of 2021, Mexican car production recovered, mainly due to robust demand from the US market, which accounts for more than 80% of Mexican vehicle and vehicle parts sales. However, the global semiconductor shortage has slowed down the rebound, and while income, margins and credit cycles of businesses have improved after the 2020 slump, they have not yet reached pre-pandemic levels. Due to lower production in Q3 of 2021 and higher prices for raw materials and logistics, the recovery of margins and cash flow has slowed down. Semiconductor shortage and high input prices are expected to affect the sector's performance until H1 of 2022.

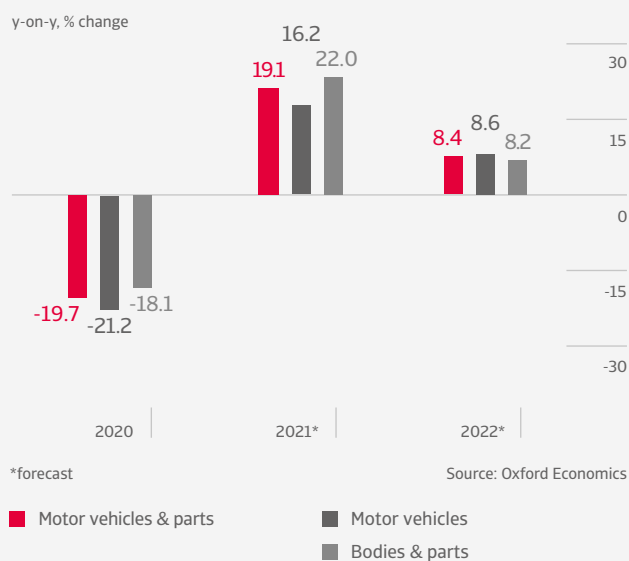
Production of electric vehicles has recently started in Mexico. So far, the government has not provided any schemes to support suppliers or Original Equipment Manufacturers (OEMs) in their transition towards e-mobility. However, Mexican suppliers are expected to adapt in time to the specifications and quality standards required by OEMs with the shift towards increased electric vehicles production.

Manufacturers of car parts and assemblers are mainly subsidiaries of global groups, and support through intercompany loans allows them to maintain a low level of bank debts. At the same

time, banks are generally open to provide credit to the automotive industry if needed. Payments take 60 - 90 days on average, and the payment behaviour in the sector has been good over the past two years, while the level of insolvencies remained low. Both payment delays and business failures are expected to level off in the coming 12 months.

Our current sector assessment is "Fair", and our underwriting stance remains open to neutral for large car producers and suppliers. However, we are restrictive in the car dealers segment, as the impact of the coronavirus pandemic on the Mexican economy has exacerbated negative sales trends in the domestic market.

### Mexico automotive output



### Performance forecast along subsectors



### Mexico automotive sector - credit risk assesement

Fair

Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>willing</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase   
 increase   
 stable   
 decrease   
 big decrease

Source: Atradius

# South Korea

## Increased credit risk for highly leveraged suppliers



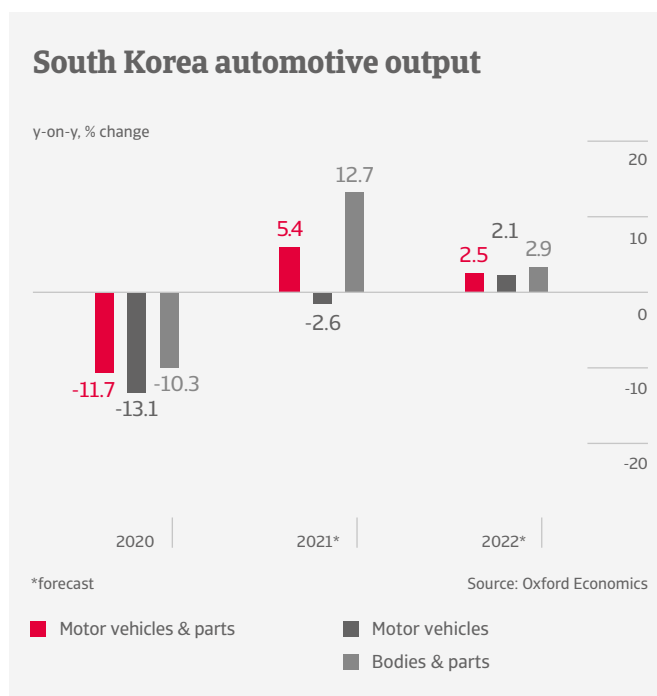
After contracting 11.7% in 2020, South Korean automotive output is forecast to rebound by about 5% in 2021 and 2.5% 2022. New car sales increased year-on-year in H1 of 2021 in the domestic market and abroad, but have started to decrease since then, as semiconductor shortages have caused supply and production disruptions. Lower output by large South Korean Original Equipment Manufacturers (OEMs) has a ripple effect along the value chain. While the profit margins of OEMs have remain stable so far, those of suppliers have started to deteriorate. At the same time, the financial situation of some Tier 2 & 3 suppliers is more strained due to larger borrowing.

Many Tier 1 suppliers are already preparing for the transition towards e-mobility, expanding related facilities. However, this transition will prove to be more difficult for Tier 2 & 3 businesses, which often lack the necessary financial strength and technological skills. While the South Korean government has not yet launched a support scheme for suppliers, it plans to spend USD 10.3 billion in 2022 for e-mobility, including incentives for hydrogen and battery-electric vehicles and charging stations.

Payments in the automotive industry take about 60 days on average. Both payment delays and insolvencies are expected to increase in 2022, mainly affecting those smaller suppliers that

already face financial difficulties (e.g. due to high leverage) and suffer most from production cuts, sales decrease, deteriorating margins and extended credit terms. Currently it is expected that business failures will increase by about 20% in the coming twelve months, but the rise could be even higher if the current supply issues last in H1 of 2022.

Our underwriting stance remains generally neutral for OEMs and Tier 1 suppliers, which are generally able to cope with deteriorating sales and margins, helped by their financial strength and strong group background. Due to the elevated credit risk of Tier 2 & 3 businesses, our underwriting stance is generally more restrictive for this segment.



### Performance forecast along subsectors



### South Korea automotive sector - credit risk assesement

Fair

Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase   
 increase   
 stable   
 decrease   
 big decrease

Source: Atradius

# Spain

## Ongoing issues, but a strong rebound expected in 2022



After contracting 18.6% in 2020, motor vehicles output is forecast to rebound by only 2.5% in 2021, as the current semiconductor shortage severely affects production. While car sales rebounded year-on-year between January-August 2021, they were 33% lower than in the same period of 2019, due to ongoing consumers' uncertainty and less supply. Profit margins of businesses have increased in H1 of 2021 thanks to improved cost structures, but have started to decrease since then, due to semiconductor shortage, logistic bottlenecks and higher prices for raw materials and energy.

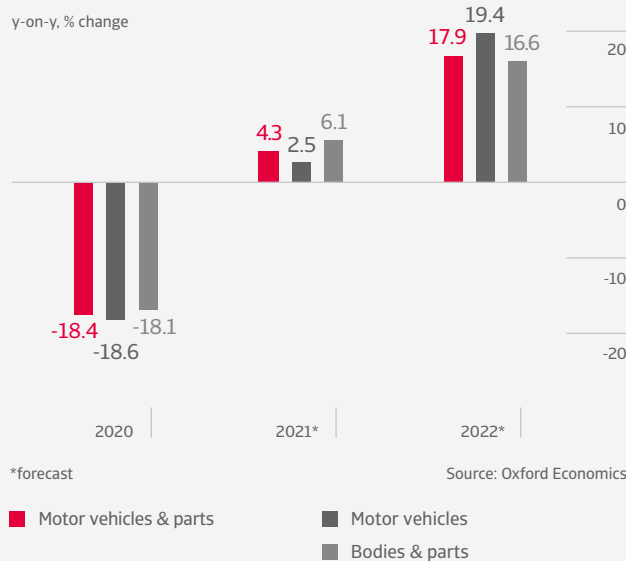
While production shortfalls have recently worsened, a strong rebound is expected in 2022, with output increasing 18%. The industry should benefit from the upcoming disbursement of the Next Generation EU fund, supporting suppliers in their shift towards e-mobility. Additionally, the Spanish government has announced public and private e-mobility investments worth EUR 24 billion over the coming three years.

Spanish automotive businesses remain highly dependent on bank funding or other external financing sources, in order to finance high level of stocks and large investments in fixed assets. While the gearing of many companies has increased in 2020, banks have supported businesses. Backed-up by government guarantees, they provided long-term loans with grace periods of 1-2 years.

Payments in the automotive industry take 60 - 90 days on average. Payment behaviour has been good over the past two years, and both payment delays and insolvencies are not expected to increase in the coming months. However, should the current chip shortages and production cuts continue in 2022, smaller Tier 2 & 3 suppliers with limited access to new financing could face higher default risk.

Our underwriting stance is open for OEMs and Tier 1 suppliers, while more cautious for Tier 2 & 3 suppliers. In this segment, the gearing of businesses and their capacity to deal with it are of major importance for underwriting decisions.

### Spain automotive output



### Performance forecast along subsectors



### Spain automotive sector - credit risk assesement

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

# Sweden

## Ongoing production delays could impact margins of suppliers



After contracting 23.8% in 2020, Swedish motor vehicles output is forecast to rebound by only 8% in 2021. Original Equipment Manufacturers (OEMs) have been forced to curb production due to a shortage of semiconductors and other components. After a sharp increase in H1 of 2021, new car registrations declined 21% year-on-year in September, due a supply shortage of new cars.

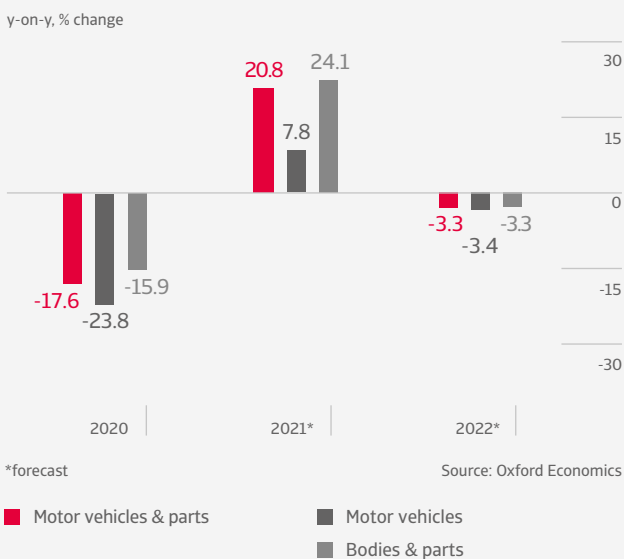
OEMs have started to prioritise production of higher-margin models in order to sustain profitability. While margins of OEMs and suppliers are not expected to decrease sharply in Q4 of 2021, ongoing production delays in 2022 would subsequently squeeze the margins of suppliers. Another issue is exchange rate volatility, as the sector is highly export-dependent. Costs are usually incurred in Swedish krona, and the recent appreciation against the Euro could hurt international competitiveness.

Swedish automotive businesses are not highly leveraged, while the current low interest rate environment facilitates debt servicing. Depending on the level in the supply chain, payment duration in the automotive sector ranges from 30 to 90 days. Automotive insolvencies are expected to increase by about 10% in the coming twelve months, as fiscal support will be phased out. The increase will mainly affect smaller suppliers that were 'saved' from bankruptcy in 2020 and in H1 of 2021 by corona-related government

support. In addition, smaller businesses could face liquidity issues in Q2 of 2022, when payment of deferred taxes will become due. Downside risks for the insolvency development in 2022 are a prolonged shortage of materials like semiconductors and ongoing supply chain bottlenecks, as well as another surge of the pandemic. Despite the downside risks our sector outlook remains "Fair" for the time being.

As the majority of Swedish suppliers is active in the commercial vehicle segment (trucks and buses), the pressure to swiftly convert to e-mobility is lower than in the passenger cars segment, providing those suppliers with more time to adapt and to transform their businesses.

### Sweden automotive output



### Performance forecast along subsectors



### Sweden automotive sector - credit risk assesement

Fair



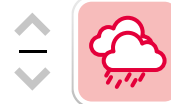
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>average</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>average</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

# United Kingdom

## Credit risk situation of suppliers about to deteriorate



After contracting 25.6% in 2020, British automotive output is forecast to rebound by only 8.5% in 2021, as the current semiconductor shortage severely affects production. New car registrations decreased 34% year-on-year in September 2021. At least, concerns over severe repercussions for the sector caused by Brexit (e.g. tariff price hikes and trade frictions) have eased. The December 2020 trade deal allows tariff- and quota-free trade between the UK and the EU. However, costs associated with customs declaration, local content audits and delays in just-in-time systems remain issues for some Original Equipment Manufacturers (OEMs) and suppliers.

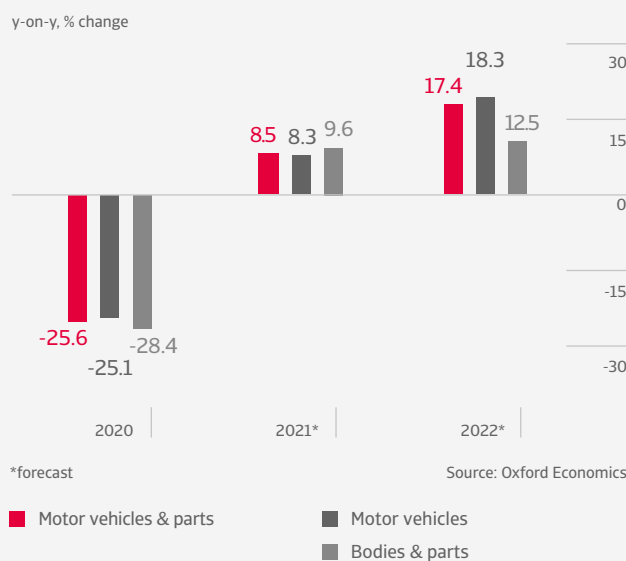
Over the past couple of months, profit margins of businesses have come under strain, due to ongoing production cuts and higher prices for steel/metals and energy. Margins will deteriorate further, as disruptions in vehicle production are expected to last until H1 of 2022. Suppliers have to cut back their output accordingly, often at short notice, while they have to manage workforce numbers or reduce working hours in order to control costs. Cash flow issues are on the rise in this segment, and will persist in the coming months.

Payments in the industry take 60 days on average, but for suppliers with low leverage they can take even 150 – 180 days. Both

payment delays and insolvencies are expected to increase in the coming twelve months, mainly among smaller suppliers. In addition to production delays, higher input prices and cost management issues, they face unwinding fiscal support, expiring bankruptcy moratoriums and repayment of loan obligations drawn at the height of pandemic. After decreases seen in 2020 and in H1 of 2021, business failures could increase by more than 50% year-on-year in the coming twelve months.

Due to the production issues that will most probably last until mid-2022 and the sharply increasing credit risk amid suppliers, our underwriting stance is mainly restrictive. Among car dealers, the second-hand segment is an exception, as businesses have benefited from sharply increased sales prices.

### United Kingdom automotive output



### Performance forecast along subsectors



### United Kingdom automotive sector - credit risk assesement

Poor

Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>average</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius



# United States

## Supply chain pressures, but higher sales prices sustain margins



After declining 27.9% in 2020, US car sales are expected to grow only 7.5% this year, as supply issues thwart robust demand. Low production growth in 2021 is mainly due to semiconductor shortage, and the impact of Hurricane Ida on petrochemical companies has caused supply constraints of plastics. While semiconductor shortage is expected to last into 2022, output of vehicles is forecast to grow 12% next year.

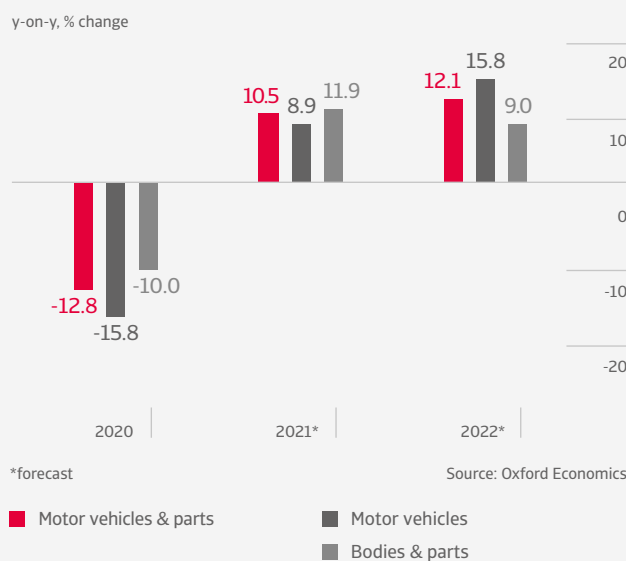
In order to maintain profits, Original Equipment Manufacturers (OEMs) have adjusted their production by prioritising high-margin and most demanded models (e.g. trucks). They have also been able to increase sales prices for vehicles. Margins of suppliers have come under pressure due to production shortfalls, higher prices for materials and labour shortage, while at the same time fixed costs remain high. However, a major deterioration of margins is not expected, as suppliers also benefit from ongoing demand and higher sales prices.

Being a capital-intensive industry, automotive is dependent on bank finance, and many businesses are highly leveraged. Currently banks are very willing to provide loans to the sector. Increased competition among financial institutions has led to loosened lending standards over the last couple of months. Payments in the

automotive industry take about 60 days on average. During the pandemic-related shutdowns in 2020, businesses have stretched payments in order to preserve cash, but meanwhile the majority of companies has returned to normal payment terms. The level of payment delays and insolvencies has been low over the past couple of months, and no substantial increase is expected in 2022.

Taking into account the current challenges for the sector, but also its financial resilience, our sector assessment remains "Fair". The Biden administration plans to support e-mobility by investing USD 174 billion in charging stations, mass transit vehicles and school buses. Large OEMs have announced to launch more electric vehicles and large investments in battery plants.

### United States automotive output



### Performance forecast along subsectors



Source: Atradius

### United States automotive sector - credit risk assesement

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? <b>high</b>	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance <b>high</b>	Non-payments over the next 12 months
	Willingness of banks to provide credit <b>high</b>	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

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