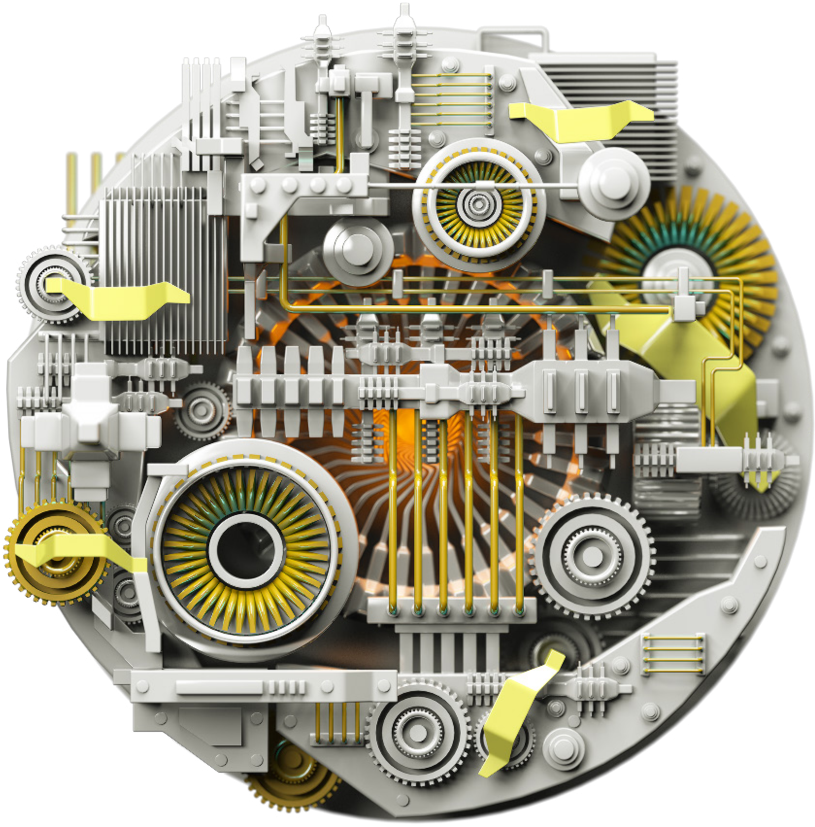

Ireland's Motor Industry – Driving forward!

The motor industry has begun to reopen and now faces a number of challenges within its new environment including factors that may be outside the industry's control. Deloitte examines the market and speaks to dealerships to understand how these factors will shape the future of car sales and aftersales services over the next 24 months.

The scale of this pandemic has yet to fully materialise, but what is known with certainty is new car sales in Ireland were down 96% in April, 72% in May and 28.4% in June when compared year on year with 2019[1], and it is difficult to believe there will not be casualties as we emerge from this crisis.

World Markets

In the first 4 months of 2020, figures show that Global Car Sales were down 29.2%[2], and now as economies slowly emerge from lockdown, whilst manufacturing production is slowly grinding up through the gears, slower rates of production are expected, with social distancing measures being introduced in plants all over the world.

The Financial Times in May quoted Moody's rating agency predicting a 30% slump in global sales this year[3].

In France, Renault (who recently agreed a €5bn line of credit with the French government) together with Nissan with whom they share an alliance, have both taken the opportunity to plan to drastically cut their fixed overheads

1 https://stats.beepbeep.ie/
2 https://www.autocar.co.uk/car-news/industry/
3 https://www.ft.com/content/2935b9f5-b00f-4f65-afa8-3542dff1ce60 special-report-covid-19-and-future-uk-car-industry

and head count[4]. Predicted combined reductions totalling some €5.5bn to be achieved in reduced overheads, and some 15,000 job losses in Renault alone were announced in late May.

In Germany, depending on whose figures you rely upon, anywhere between 2 to 3 million jobs are reliant upon the German car industry with staff either employed directly, in the supply chain or supporting jobs. New car figures for May in Germany are down 50% of last year despite the showrooms being open for all of May.

In addition, exports were much weaker according to the VDA, the German Association of the Automotive industry with some 105,100 cars exported in May, down 67% on last year.

The Financial Times reported in May, that it came as a surprise to the once powerful car lobby – the VDA, when the German government were not convinced to step in to specifically assist the motor industry as they did in 2009 by introducing a scrappage scheme ("Abwrackprámie") and instead the government would only agree to "discuss measures to stimulate the economy".

Perhaps the after effects of Deiselgate[5] (which cost VW €31bn and rising) is still ringing in the ears of Chancellor Merkel and her government.

It is also estimated that German car manufacturers will spend some additional €40bn in the next three years on battery-powered technology, which will significantly affect overall profits, this combined with a expected continued fall in demand across all car sectors is a worrying trend.

Hertz, one of the largest car rental firms entered chapter 11 in the USA & Canada at the end of May citing the impact of covid 19 being sudden and dramatic. Whilst they continue to trade during this restructuring process, ten thousand jobs or 26.3% of its workforce have already been cut. The company confirmed it possessed $1bn in

cash to support its on-going operations but it also is carrying debt of some $19bn at the time of entering chapter 11.

Consumer sentiment

The Deloitte State of the Consumer Tracker, which conducts longitudinal biweekly surveys of consumers across more than 10 countries, found in early July that in the US some 26% were concerned with meeting upcoming payments and 42% indicated they are delaying making large purchases.

In Ireland the survey found those numbers were some 22% and 37% respectively.

What may be more worrying from the Irish Car Dealer network is that in early July some 52% of those in the Deloitte survey indicated they now intend to keep their present vehicle longer that they originally expected; this does not bode well for the industry as a whole.

Ireland's Present Market Position

The Irish new car sales market suffered from continued turmoil since the economic crash in 2008.However, by 2016, the new car market here had more or less recovered, according to Tom Cullen, Director with The Society of Irish Motor Industry (SIMI) to a position where things were finally looking very positive and new car sales had reached in excess of 146,000 units that year, being almost double the sales figure when compared to 2013[6].

Then, one day in June 2016, Brexit occurred and everything changed again. Tom Cullen said, "sterling weakened and we saw within a short space of time a significant increase in UK imports with both individual purchasers and car dealers all seeking a part of that action where the market conditions were such that decent margins were there to be made on the resale of UK imports".

Regrettably, in the course of a couple of years, this had the negative effect of increasing the average age of vehicles in the Irish fleet from between 5/6 years (where it should be) to a present average of 9 years of age.

Ageing car stocks are not good for the industry, the climate or the economy. New car sales have fallen here year on year

4 https://www.ft.com/content/82f2a4a5-d897-41f1-ad66-7902882e1581
5 https://www.ft.com/content/7f881c88-8981-4691-8040-06a25cdc0e3f
6 https://stats.beepbeep.ie/
7 https://stats.beepbeep.ie/

since 2016 and 2020 is not looking pretty[7]:

- 2017 – 10.4%
- 2018 – 4.4%
- 2019 – 6.8%

The introduction of the Nitrogen Oxide (NOx) charge in January 2020 has somewhat stemmed the tide of imports of older diesel cars from the UK due to the additional costs added to VRT.

In addition, as March and September are the dates for changing car plates in the UK, this year, due to the pandemic and lockdown, the UK March changeover never really happened, so the expected release of fleet cars becoming available for purchase and subsequent importing to Ireland did not occur.

New & Used Car Sales 2020

The SIMI had predicted new car sales in 2020 would be in the region of 111,000 units sold. This has been revised to 74,000 units.

Based on present figures, even this may prove to be a little optimistic but the figures for new plate registrations for July are due out shortly and will tell a lot.

The Irish hire fleet, which accounts for some 15% of all new car sales found itself effectively cancelling any orders not fulfilled by February 2020 and these lost orders will not be replaced this year with no tourists to rent cars to[8].

One main dealer Deloitte spoke to earlier this week expects that their orders will be back between 25% to 30% when compared year on year with 2019, and that is a significant hit for any dealer. They expect this will be replicated across most main dealers.

When the forecourts reopened on 18th May, customers were few on the ground, however their presence has increased significantly over the last four weeks and again the main dealer Deloitte spoke to indicated they were back to about 80% for used car sales and aftersales when compared to the same period in 2019.

The pent up demand coupled with the additional savings many families have garnered when working from home means that many customers may seek higher spec second hand vehicles rather than opt for a new vehicle.

That main dealer remains confident that they would likely match their turnover for the remaining months of the year for such aftersales and sales of second hand units but that new car sales lost for March, April and much of May cannot be recouped.

The next few months will really show whether this initial pent up demand for used car sales arising post lockdown will continue at the same level, or if as per trends in recent years, the overall level of car sales will continue to decline year on year. Many families have managed to save some additional funds whilst working from home and this coupled with the likely lack of foreign travel for many may just keep the demand for good quality second hand units at a reasonable level.

However, Deloitte question will the public be ready to continue to make these significant purchases (usually second in size only to a house purchase) in the current environment?

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8 https://www.thinkbusiness.ie/articles/irish-motor-trade-covid-19-2020-stephen-healy/

Many factors are presently at play, which affect these larger purchase decisions:

- Job security;
- Economic indicators / falling GDP;
- Ability to secure finance;
- Conflicting messages about Electric Vehicles.

When asked where the future for the Irish industry lay, the main dealer Deloitte spoke to opined:

- There will undoubtedly be redundancies in the sector through Q4 of 2020 and into 2021;
- There will likely be some consolidation of dealerships as there are too many independent dealers to service the level of demand;
- Any dealer who was struggling pre pandemic may trade through 2020 possibly utilising the Revenue debt warehouse scheme but with 2021 expected to be as challenging as this year, there will be casualties arising.

Tom Cullen in the SIMI indicated the industry is facing challenging times ahead, but also praised the government for its subsidy schemes, the Revenue Commissioners, financial lenders and other stakeholders, all of whom have all played their part in supporting the industry to date.

Deloitte Comment

New Car sales are reducing globally and Ireland is not the exception.

There will be significant reduction in new car sales this year (for the 4th year in a row), together with a possible slowdown in the second hand market over the coming 12 months. When coupled with the level of overall economic uncertainty, it is difficult to see that that there won't be casualties in this sector emerging in late 2020 or 2021.

This will llikely result in an overall reduction in the number of branded and independent motor dealers.

Deloitte would urge Directors and owners to ensure they continually monitor their financial performance, document the rationale for taking decisions at a Board level and seek to avail of the appropriate professional and financial advice should they encounter difficulties.

Acting early in times of crisis, which may involve some form of restructure may lead to a leaner more efficient organisation with increased chances of survival.

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