

# SMU Community Chat

April 22, 2020

Starting at 11 AM Eastern

**John Packard, President & CEO of Steel Market Update**

**Bernard Swiecki, Director at Center for Automotive Research**

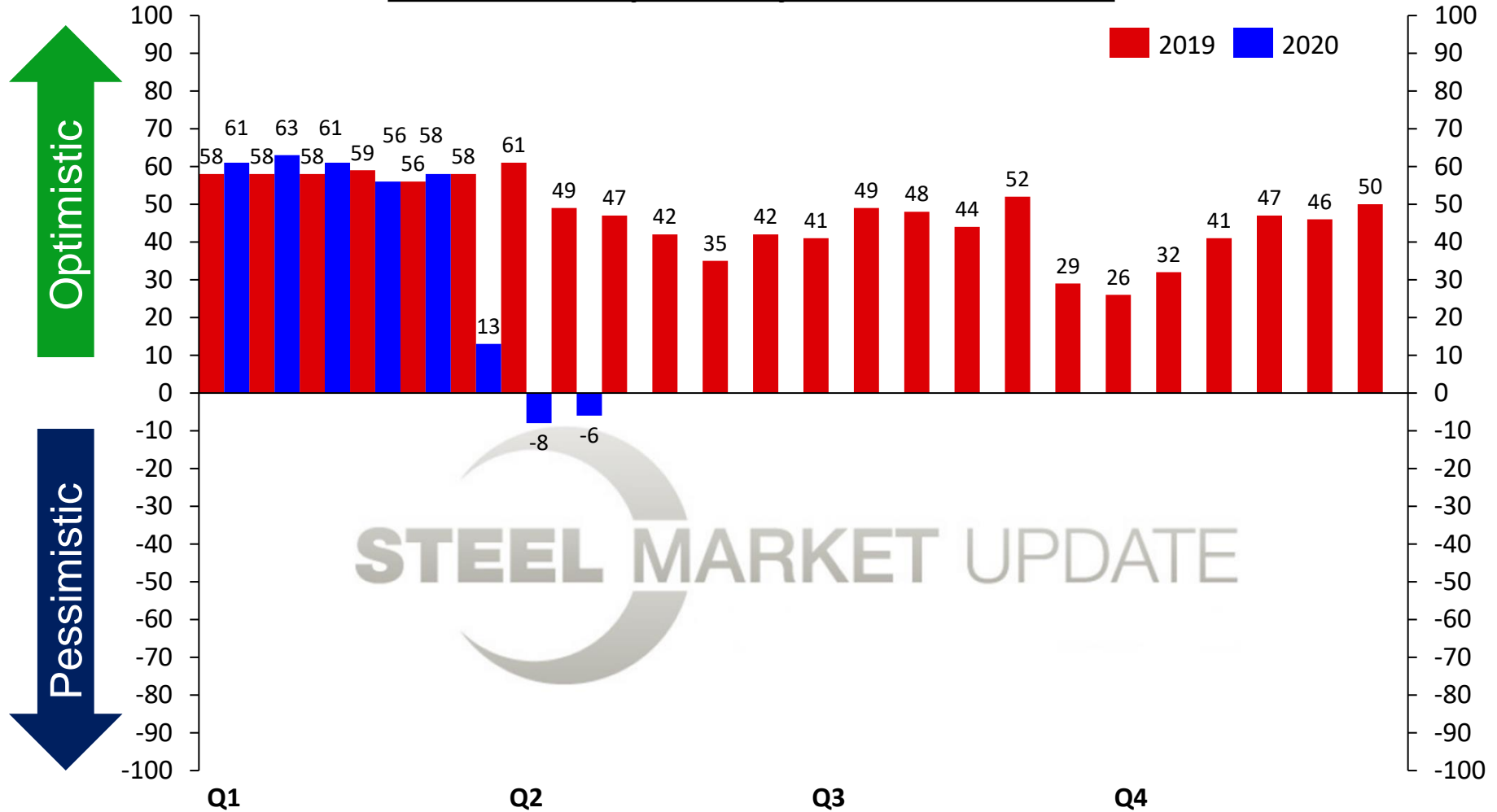


[SteelMarketUpdate.com/blog/SMU-Community-Chat-Webinars](https://SteelMarketUpdate.com/blog/SMU-Community-Chat-Webinars)

# SMU Buyers Sentiment Index

Up 2 points to -6

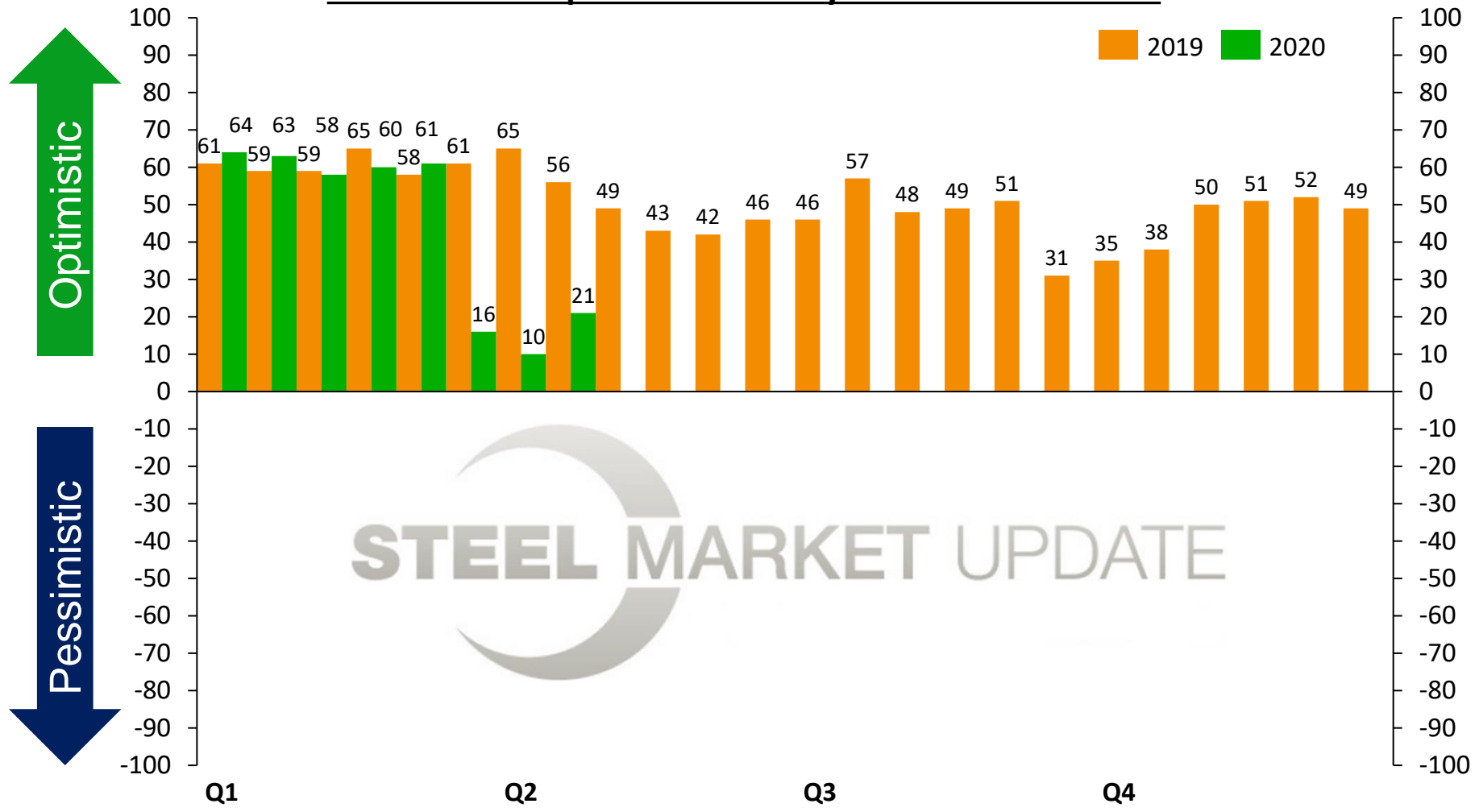
## Steel Market Update Buyers Sentiment Index



# SMU Future Buyers Sentiment Index

Up 11 points to +21

## Steel Market Update Future Buyers Sentiment Index

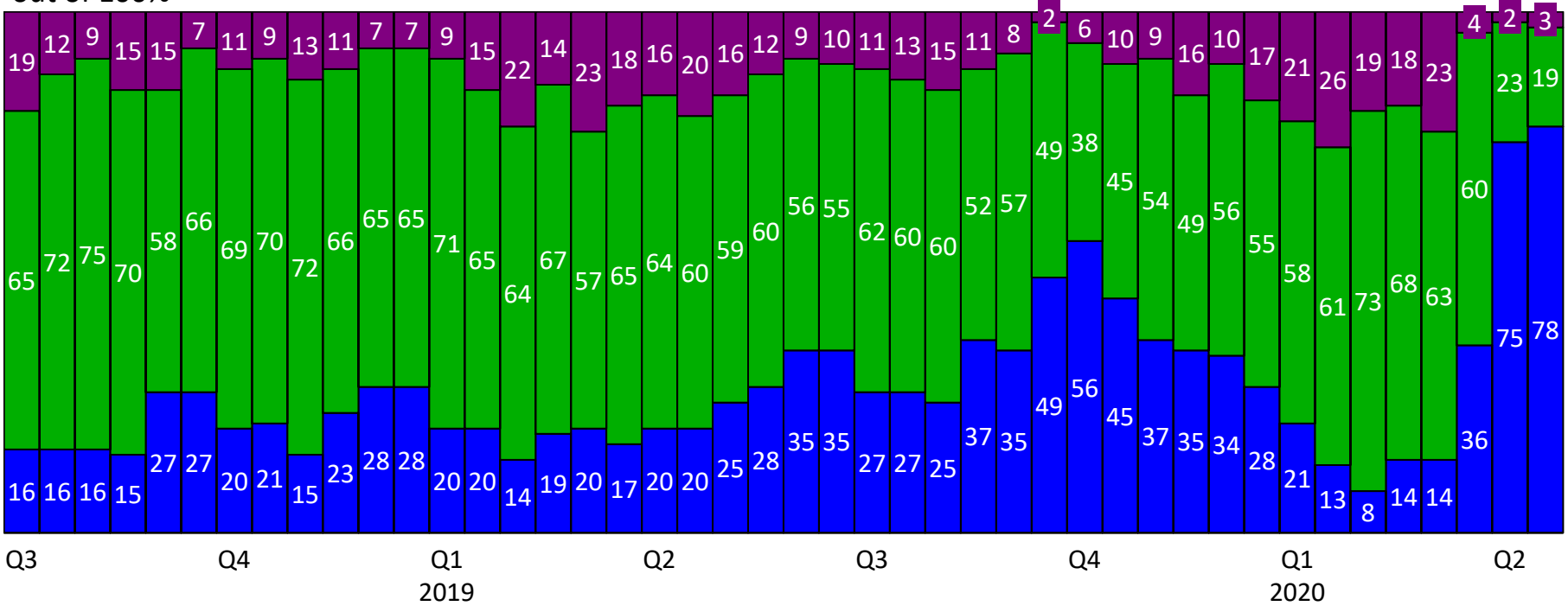


# Overall Demand History

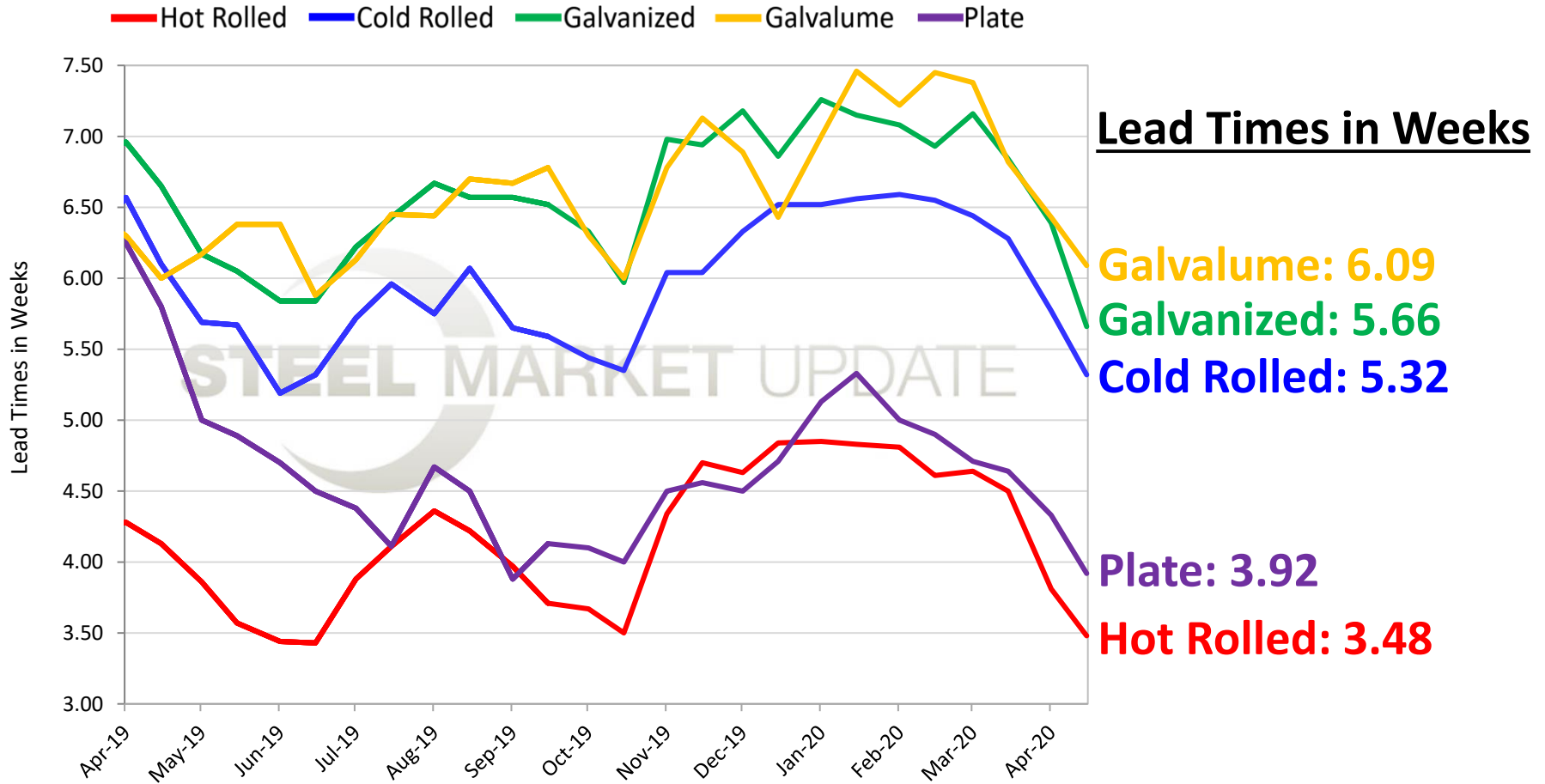
Are you seeing demand for your products improving, remaining the same or declining?

- Demand is improving
- Demand is remaining the same
- Demand is declining

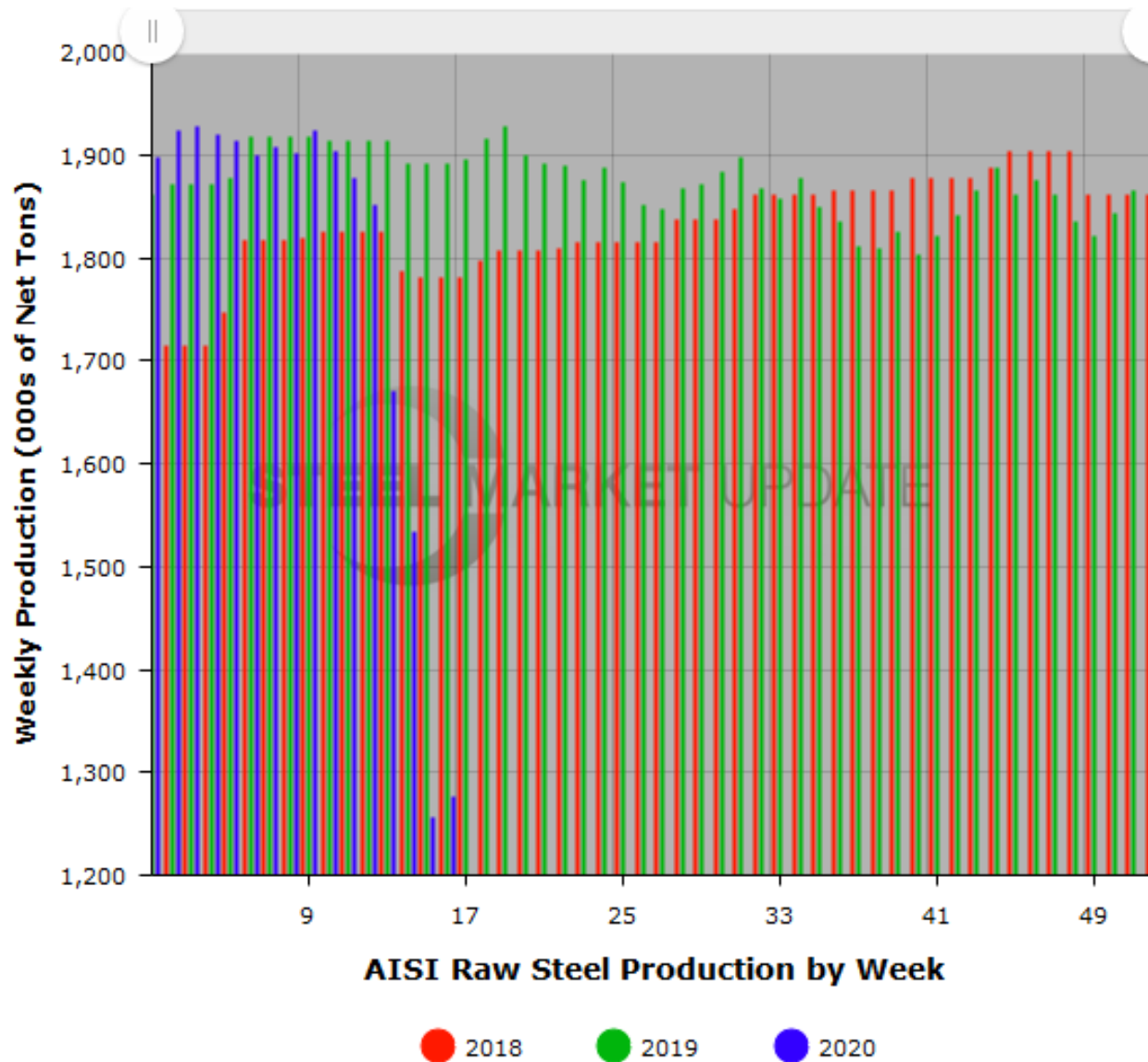
out of 100%



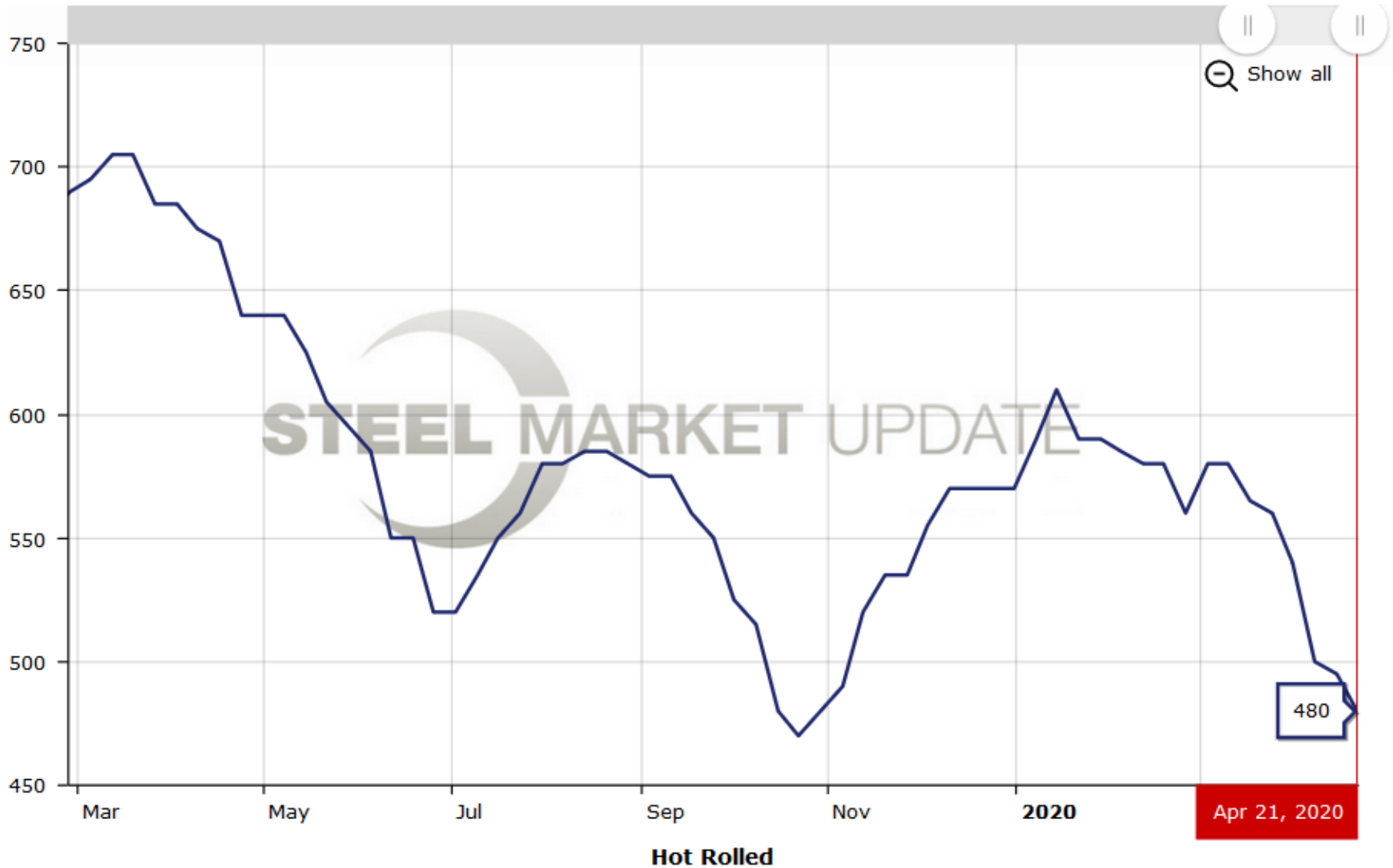
# Mill Lead Times



# Capacity Utilization



# Hot Rolled Steel Prices





Bernard Swiecki is Director, Automotive Communities Partnership and Assistant Director-Research Center for Automotive Research

Mr. Swiecki serves as Director of the Automotive Communities Partnership (ACP) at the Center for Automotive Research (CAR), as well as a Senior Automotive Analyst in CAR's Industry, Labor, and Economics (ILE) group. He joined CAR in 1994.

Bernard has written and managed research in a diverse array of automotive fields pertaining to automaker/supplier relationships, electric and alternative powertrain vehicles. He manages CAR's analysis of vehicle sales, production, and segmentation data. He has also led trade missions to China, Italy, India, and Russia





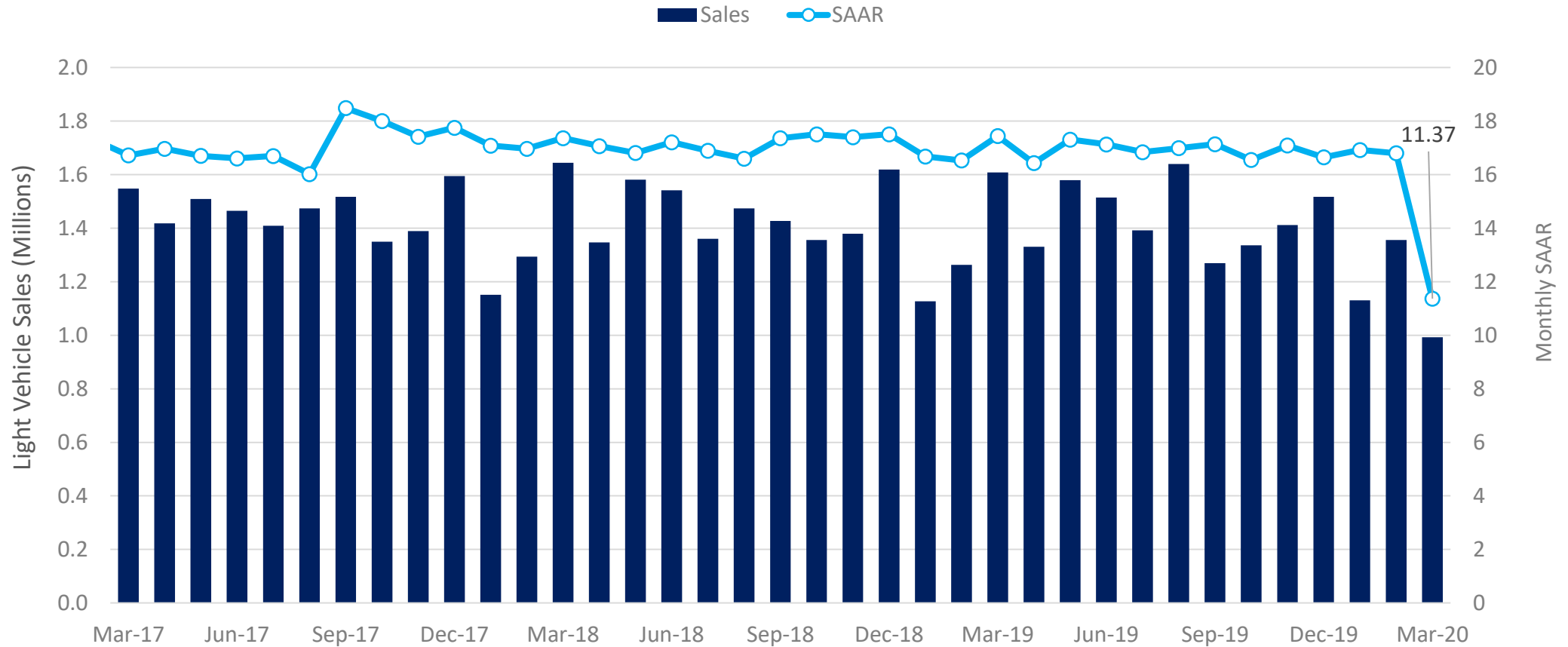
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RESEARCH

# The Automotive Industry in a Time of COVID-19

Steel Market Update

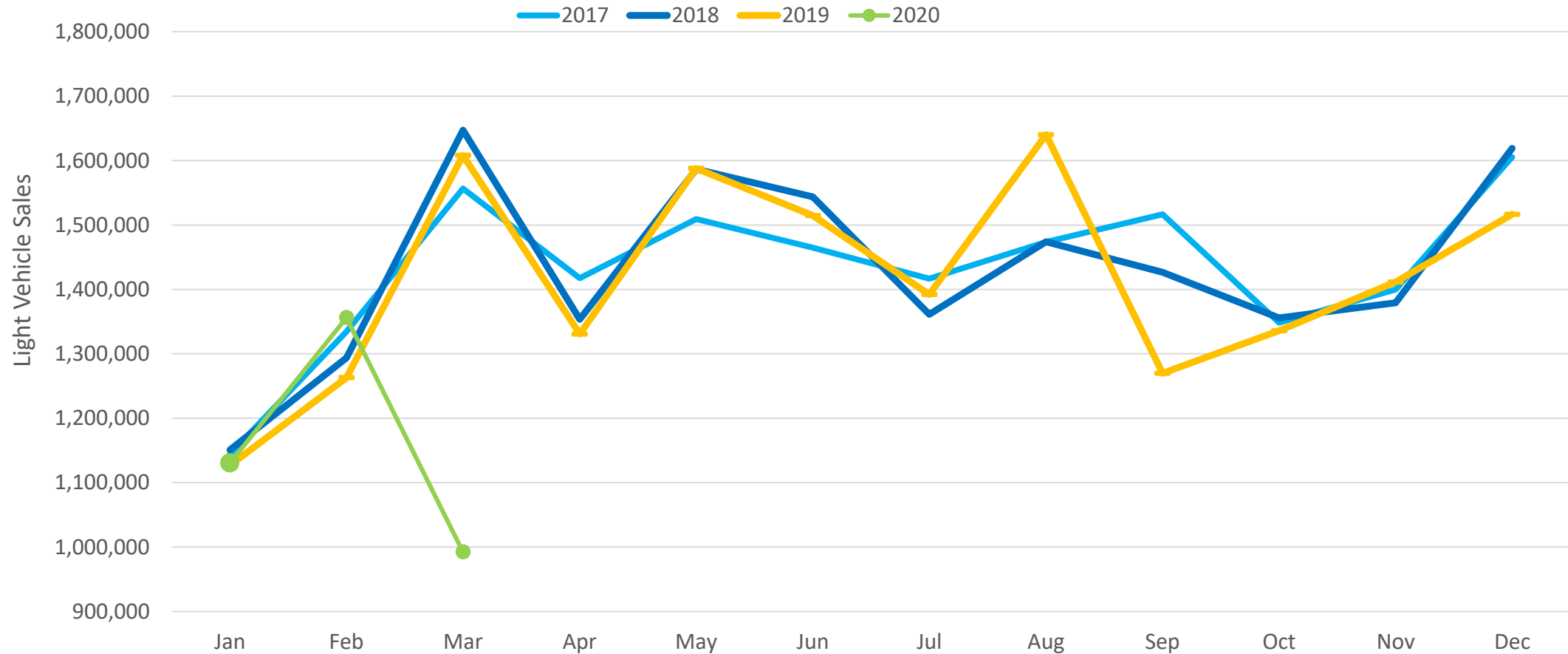
April 22, 2020

# U.S. Light Vehicle Monthly Sales and SAAR: March 2017 to March 2020



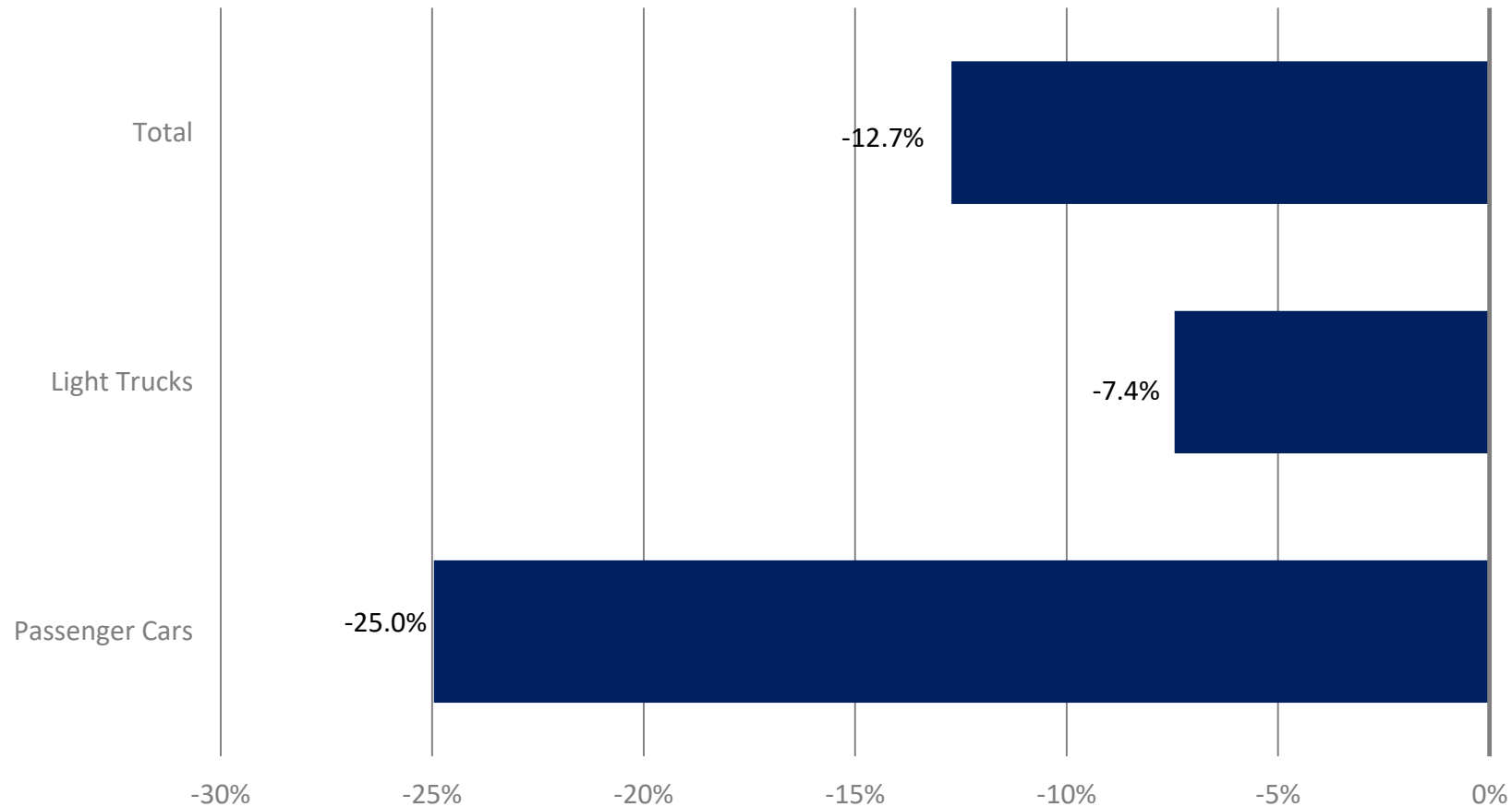
# U.S. Light Vehicle Monthly Sales

## January 2017 – March 2020



# U.S. Light Vehicle Sales

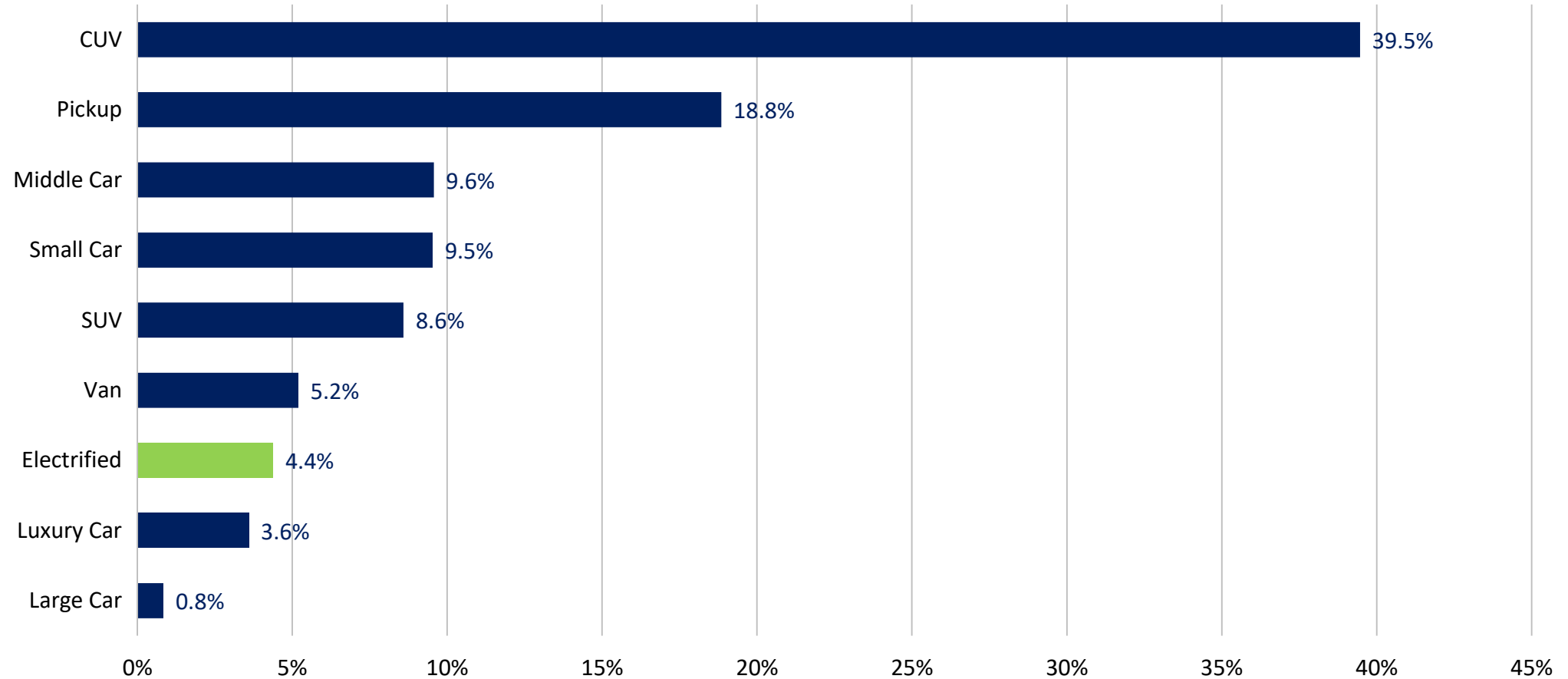
## Percent Change (YTD) Through March: 2020 vs. 2019



3,476,512 -506,969 100%	Total
2,575,212 + -207,170 74.1%	Truck
901,300 -299,799 25.9%	Cars

# Market Share: Segment Breakdown

## U.S. Light Vehicle Sales 2020 YTD Through March

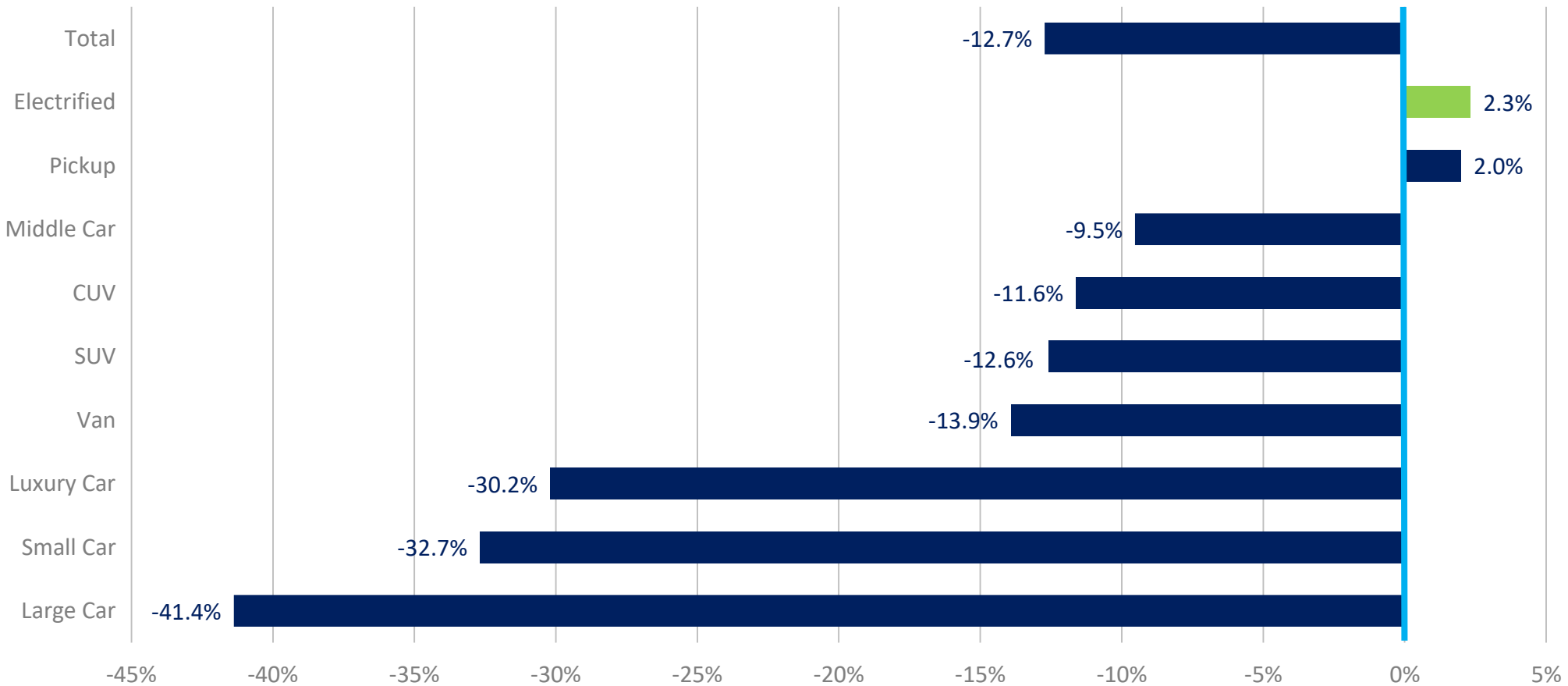


Note: Electrified Segment consists of BEVs, HEVs and PHEVs; all other segments are sales exclusive of Hybrid models

# Segment Breakdown: U.S. Light Vehicles Sales

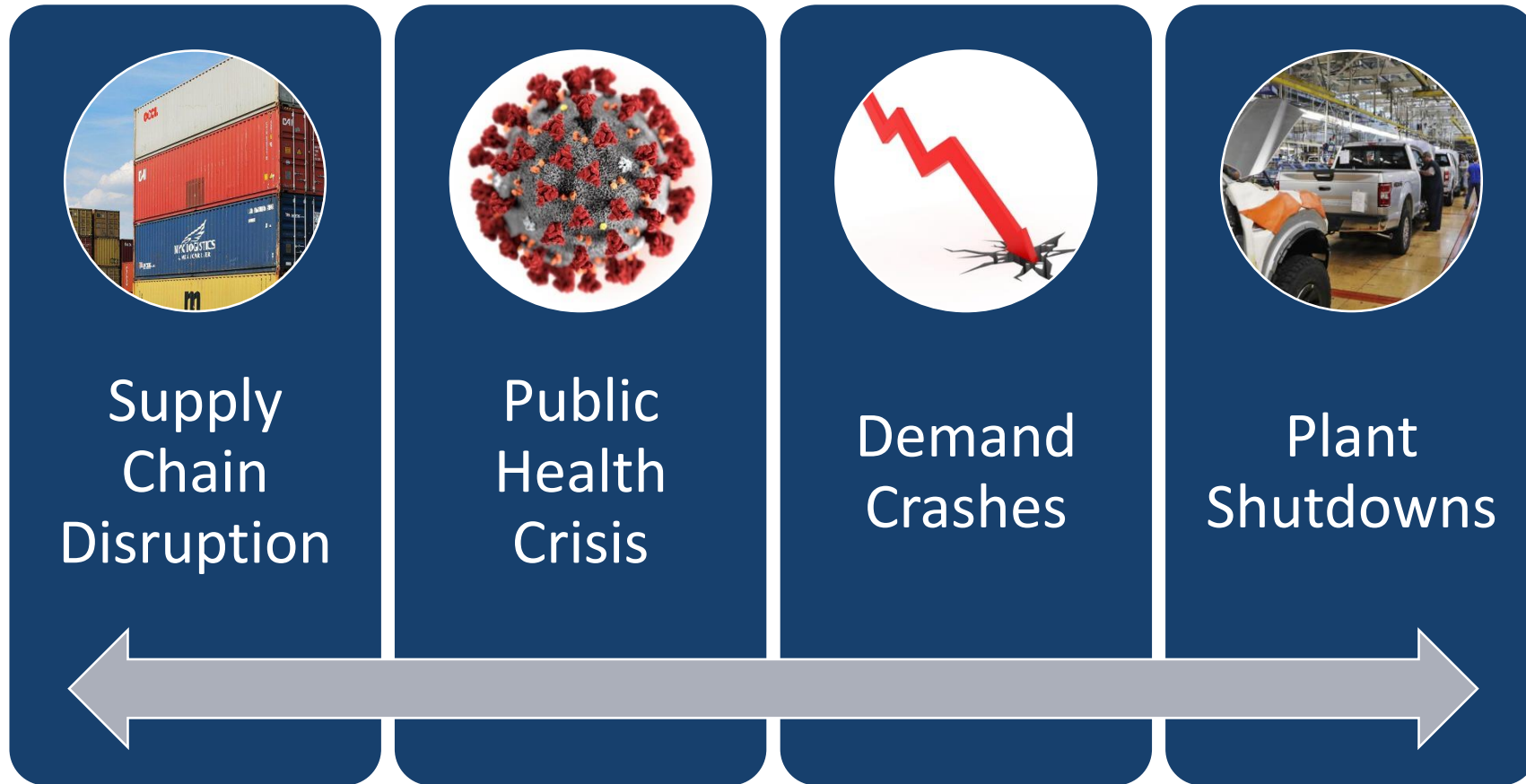
## Percent Change

2020 YTD vs. 2019 YTD Through March



Note: Electrified Segment consists of BEVs, HEVs and PHEVs; all other segments are sales exclusive of Hybrid models

# Coronavirus Pandemic Is Causing Global Economic Downturn





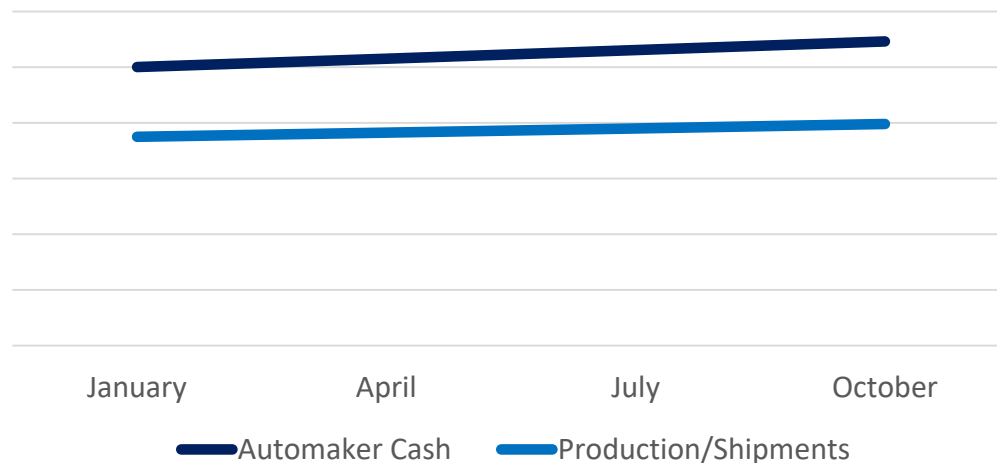
# Will Automakers & Suppliers Make It Through?

*It depends on how long the 100% shutdown lasts & whether there are “waves” of outbreaks.*

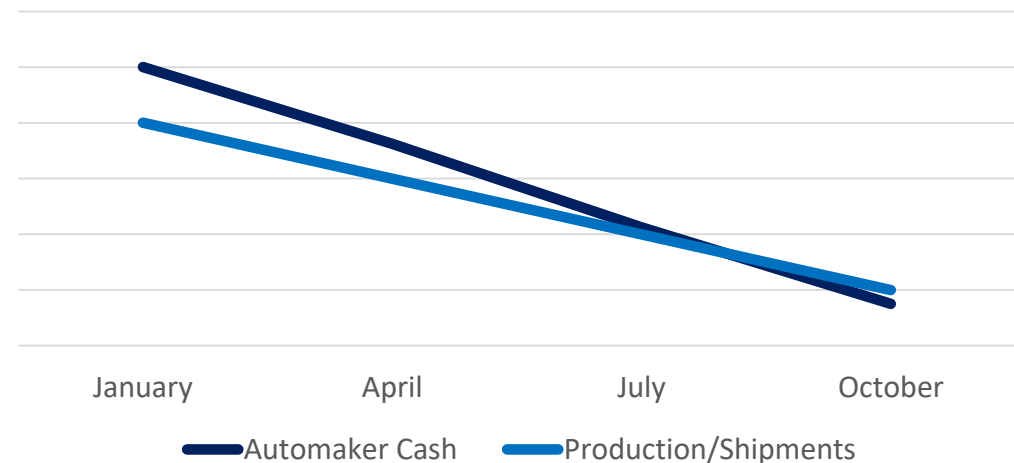
## **Automakers Operate with Negative Working Capital**

- Automakers are paid immediately after vehicles are shipped from their plants
- Automakers typically have 45-50 days to pay suppliers for materials

*Normal Environment*



*Current Environment*





# Economic Effects of the Pandemic: Scenarios for Vehicle Sales

- Pre COVID-19, CAR forecast 16.5 million light vehicle sales in 2020
- CAR's scenarios for various production shut-down durations:
  - Six-week shut down           15.6 million (-0.9 from pre-COVID baseline)
  - Twelve-week shut down       15.1 million (-1.4 from pre-COVID baseline)
  - Six-month shut down           13.1 million (-3.4 from pre-COVID baseline)
- Forecast of a 10-12 million “break-even” assumed continuous production

# Economic Impacts of COVID-19

**Each week of lost production and sales of new and used vehicles results in an annual impact of:**

- -271,000 jobs
- -20.5B in total personal income
- -5.6B in government tax receipts

# A cash crunch for automakers & suppliers

- CAR is closely monitoring the potential financial impact of the current 'zero revenue' environment.
- The situation is unprecedented with simultaneous disruptions to **both** demand and supply.
- Automakers:
  - Have significantly improved balance sheets and lowered fixed costs since 2008-2009
  - Still face significant negative cash flow due to the unwinding of negative working capital (i.e. payables to suppliers at 45-55 day terms are much higher than receivables from auto sales, which substantially stopped mid-March).
- Suppliers:
  - Impact will be somewhat lagged as a result of 45-55 day payment terms
  - Suppliers will see significantly reduced cashflow in May-June, i.e., 2x worse than 2008-2009, when the U.S. Treasury took action to insure access to liquidity
  - This will be compounded by working capital investment requirements, e.g. to purchase raw materials and rebuild inventory, to restart production.

# What the next few months look like

- Coordinated government assistance among will be required to minimize supply disruptions caused by inconsistent "stay-at-home" and "essential business" mandates.
- The cash crunch is likely to reduce R&D for entirely new products and moon-shot technologies.
- Industry reports suggest that near- and medium-term model launches will not be significantly impacted.

# Small Businesses are a Key Part of the Automotive Supply Chain

- 78% of U.S. auto suppliers are firms with <100 employees & average revenues ~USD 4.5M
- Small businesses are extremely vulnerable to delays; many may not bridge the COVID shutdown
  - Median small business has 27 days of cash, median restaurant has only 16 days of cash
  - 16 March: First state-wide orders closing bars, restaurants, movie theaters, gyms, and similar businesses
  - 20 March: First state-wide “stay home” orders

Sources: Committee for a Responsible Federal Budget. <https://www.crfb.org/blogs/visualization-cares-act>; Politico <https://www.politico.com/news/2020/04/02/banks-small-business-lending-program-launch-161106>; JPMorgan Chase <https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf>



# THANK YOU

[bswiecki@cargroup.org](mailto:bswiecki@cargroup.org)

# Thank You

Thank you for attending our SMU Community Chat Webinar.

A special thank you to Bernard Swiecki for his participation in today's community chat.

Tomorrow we will provide a link to the video recording of today's webinar.

Our next webinar will be **Wednesday, April 29th at 11 AM ET** and will feature Ken Simonson, Chief Economist for the Associated General Contractors of America.

Registration will be open beginning tomorrow morning.

Stay safe and stay tuned to Steel Market Update.



# STEEL MARKET UPDATE

part of the  Group

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