The auto industry will probably never be the same again

By Ian Henry, Owner and Managing Director of AutoAnalysis and Visiting Professor at the Centre for Brexit Studies.

Amidst the economic, political and social confusion which COVID-19 has generated, car companies have – a few exceptions (Aston Martin, Lotus and McLaren) apart – stopped production.

Most factories will retain a skeleton staff to cover essential maintenance and receiving incoming shipments of parts which are en route to the factories. But at JLR and Nissan for example, no cars are going to come off the production line for several weeks, at least two, probably four and quite possibly many more.

And even when the authorities deem it safe for manufacturing to restart, the industry will face a demand slump. This is likely to be far deeper than anything experienced in the wake of the 2008 financial crash or earlier downturns.

Even if the UK government’s offer to pay some workers 80% of their salaries (up to £2,500 a month) throughout the crisis comes good, the vast majority of people will experience economic and financial difficulties. Once back at work and once a new normal has been established (not that we have any real idea of what that will mean), consumers and companies alike will likely delay or put off entirely new car purchases or leases for several months.

From a car company’s perspective, they will want to sell off existing stocks first rather than build up yet more inventory. There could well be some very good bargains for consumers in the immediate aftermath of the worst of COVID-19 being over.

In terms of production volumes, substantial planned output will have been lost and is almost certainly not going to be made up within the current financial year. Initial estimates of likely lost production based on car company closure announcements to March 20 suggest that by the end of April something between 1.3 and 1.4 million vehicles which were due to be made will not now be produced.

That number, however, is based on some factories only closing for a couple of weeks, and others for a month; in reality, with around 18m cars and light commercial vehicles made in Europe per year, taking into account normal holiday closures, a month's lost production would actually be closer to 1.6m units. With the ex-factory value of European-made vehicles ranging from £10-50,000 (and much more at the premium end), the likely loss of economic value is simply enormous.

For suppliers, logistics providers (once they have delivered existing component supplies in transit) and businesses that depend on a functioning car plant, the loss of business will already be being felt. The cost of this is currently almost impossible to calculate but it will certainly run into billions.

At some point, in three months, probably more, it is possible that the worst of COVID-19 will be over, and some industries will begin to restart. In the short term, things will operate – with interruptions – as they did before the outbreak.

However, longer term, long distance supply chains and the geographic aspects of just-in-time will be re-thought. Some stages in the supply chain will likely be re-located closer to the factories and – assuming that the UK automotive industry remains viable – there could be more opportunities for UK-based suppliers. "Could", of course, will be the operative word.

We will begin to see how things might change later this year; it's not just a question of whether things will change, but rather when and how quickly change will come.