

Prospects for UK automotive production

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UK 2018 Car & LCV output: 1.58m, -9.5%

Decline due to:

- End of life volume dip: Auris, Avensis, Evoque, CR-V, Juke
- Production shift overseas: Discovery
- Poor sales: Jaguar sedans, Infiniti, Discovery Sport
- Brexit uncertainty
- European slowdown
- China market fall
- Diesel

A few positives

- Civic to US (c60% of Swindon output)
- New Leaf boost to Nissan volumes
- Strong Mini volumes
- Investment announcements:
 - Luton £100m for new PSA van, for Vauxhall, Opel exports and Peugeot/Citroen UK supply
 - JLR battery (Hams Hall, new) and e-motors (Wolverhampton, expansion)

Exports = c80% of production – good trade deal with EU absolutely essential

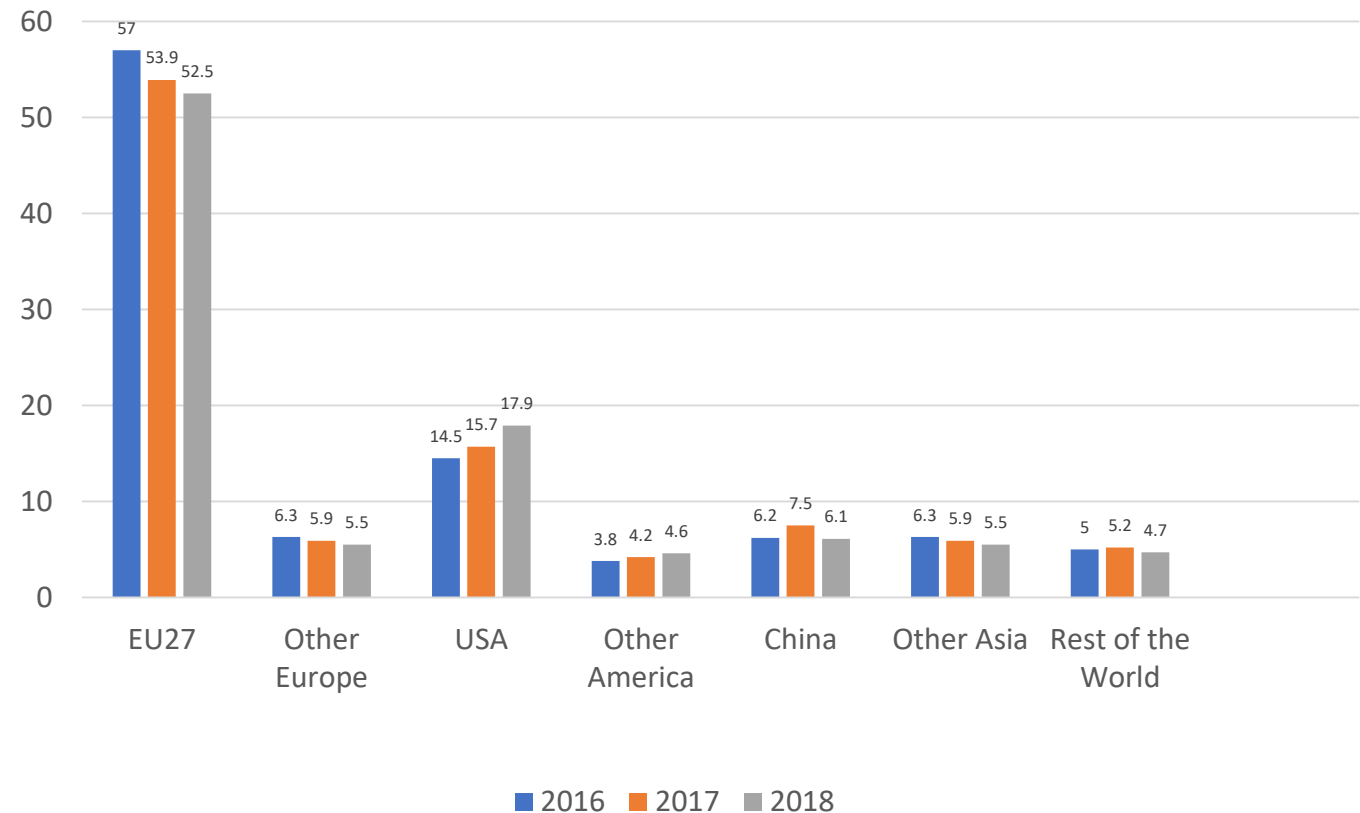
2016-2018 has seen:

- EU 27 decline as % of UK exports
- US % rise
- China rise, then fall

US exports rise driven largely by Honda Civic and Infiniti QX:

- These models will soon be lost to UK production and exports
- Decline in US and China exports will increase dependency on EU as key export market

2016-2018 UK exports by destination (%)



Prospects for 2019: a troubled start to the year

- Q1 car production down nearly 16% yoy, down 22% through April
- Dramatic 44% fall in April alone due to planned Brexit shutdowns
- Political turmoil means poor decision-making environment continues
- More cutbacks ...
 - Honda announced Swindon closure, by 2021, possibly earlier – 120-130k annual loss
 - X-Trail production cancelled – up to 50k boost will not happen
 - Infiniti stopping production – had never reached 50k target
 - These announcements mean loss of c225k potential annual output
 - Ford redundancies and Bridgend closure
 - 4,500 JLR job cuts under way
- Expect 2019 production will be c1.4m at best, even with agreed departure on October 31

Prospects for 2019: a few positive signs

- Luton switched to new PSA van:
 - Output should rise from 60k to 90-100k
- Mini Oxford investment for electric Mini continues:
 - Adds 25k pa, maintaining plant at 200-220k
 - SOP November
- Toyota Corolla SOP January
 - Suzuki version of Corolla confirmed for late 2020
 - Modes volume, to maintain utilisation at Burnaston
- JLR confirms commitment to Solihull: concern remains re Castle Bromwich future
- Aston Martin DBX trial build has started

2019 and beyond: key assumptions

- Agreement reached with EU, including transition to 12/2020
- Possible extension to conclude FTA
- Transition period would see auto industry operate as now
- Zero tariffs and regulatory alignment would continue from January 2021

Some customs friction and disruption to JIT systems are likely even with zero tariffs:

- Non tariff barrier costs will emerge
- **Estimates vary - 0.5 to 1.5x cost of tariffs: likely to be at bottom end of range**

Also assumed that current, planned, committed UK model introduction plans will continue:

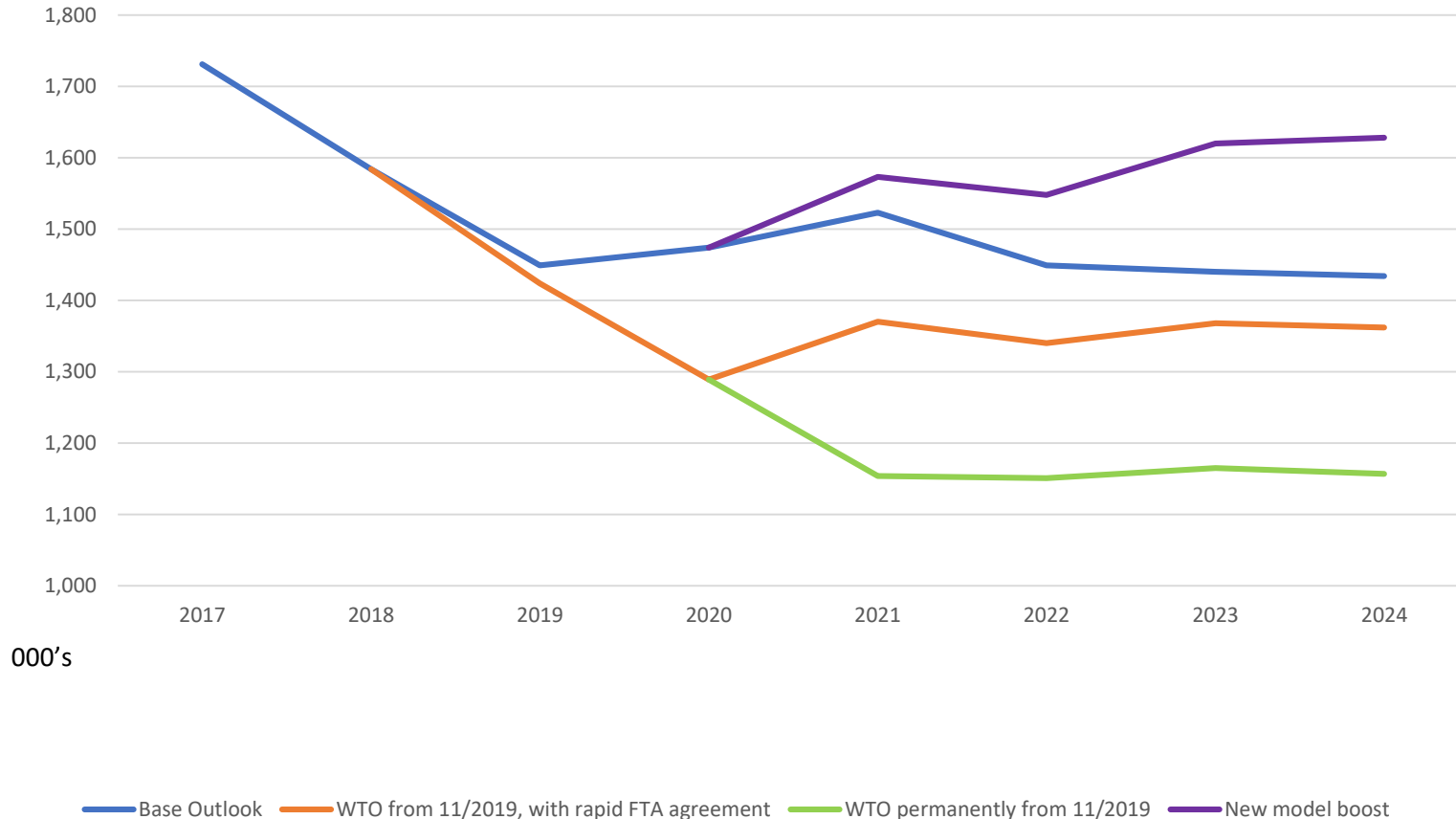
- **2019:** Nissan Juke, Mini EV and new PSA vans
- **2020:** Nissan Qashqai
- **2021;** new Range Rover programme, including electrified versions
- Post 2021 model decisions and production allocations yet to be made: next MINI, Vauxhall Astra replacement, Jaguar full BEVs

Hard Brexit on October 31 looking likely: what happens next is far from clear

Three broad possibilities ...

1. Agreement reached (based on May's deal), with transition to December 2020 and:
 - Comprehensive Free Trade Agreement signed
 - Possible extension of transition to complete FTA legal process
2. No agreement but extension of article 50 process and either General election or second referendum
3. "No Deal" departure, followed by:
 - WTO terms, followed by "quick" transition to Free Trade Agreement or
 - WTO terms on long term, "permanent" basis

UK car and LCV production to 2024: possible outcomes



- Base Outlook (**blue**), with EU deal/transition/zero tariffs post 2021 would see production fall to <1.5m in near term, trending to just over 1.4m
- WTO terms from November 2019 with rapid FTA agreement (**red**) would see production fall to below 1.4m on long term basis
- WTO terms on long term basis from November 2019 (**green**) would see production fall to c1.15m and remain around this level: tariff and non-tariff cost pressures would hit UK exports' competitiveness in EU markets
- But one more negative decision could quickly tip UK **below** 1m pa
- *A positive EU deal (**purple**) could see further investment in UK production, with c1.6m a possible long-term outcome, but 2m a year is no long plausible*

Brexit: industry's views and actions

- Industry very frustrated at lack of policy certainty
- April shutdowns planned assuming no deal on March 29 ...
 - Mini brought plant improvements and summer holidays forward
 - JLR added 1 week to planned April shutdown
 - Honda had 6 shut down days
 - Luton switched to new van in April rather than over summer
- April shutdowns and other model cycle changes mean that even with no “no deal” Brexit, UK production is likely to be down 150,000+ y-o-y – and possibly more ...

What will Brexit cost UK automotive?



- See chapter 3 for Brexit Impact Assessment model
- Free on Kindle Unlimited
- UK production at model or plant level
- EU sourcing value per model
- Tariffs on imported components
- Ex-works value of finished vehicle
- Tariffs on finished vehicles
- Non-tariff barrier costs
- Vehicle production volumes
- And multiplies it all together

Hard Brexit would be catastrophic for UK automotive production

- Over £3bn in tariff costs alone: for two vehicle companies cost would be £1bn each...
- Possibly ameliorated if government drops tariffs on imported components
- Risk of damaging UK supply base withy flood of cheaper imports
- Non tariff barrier costs inevitable on top:
 - Difficult to calculate, but could easily be over £1bn on top of tariffs
 - Increased working capital, additional stocks
 - Increased warehouse space
 - Customs processing costs
 - Increased carbon footprint likely
- UK production would become uneconomic for some vehicle programmes
- Loss of economic value added to economy, reduced tax take, loss of highly skilled jobs
- Centre for Brexit Studies beginning major programme on this over the summer

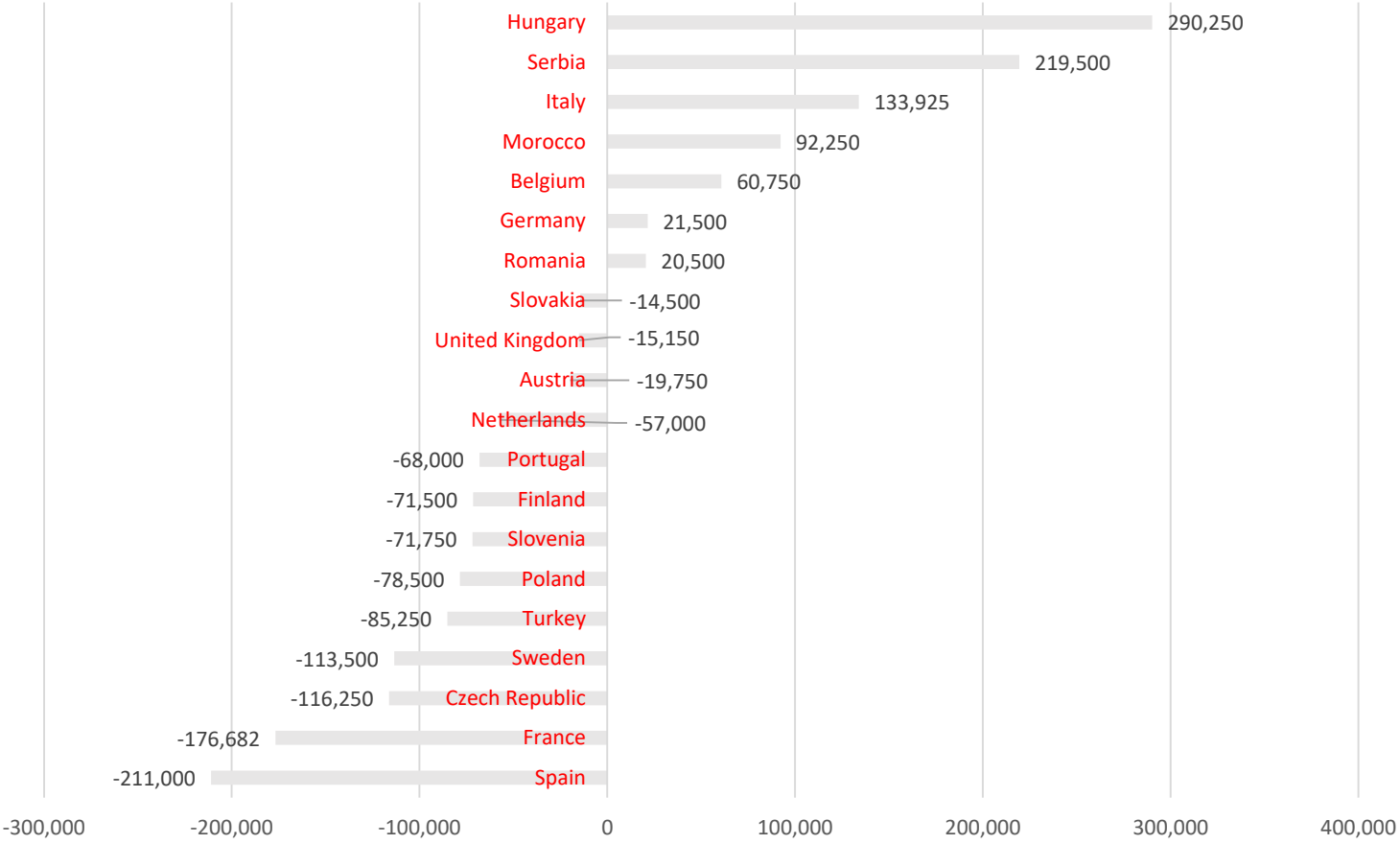
Meanwhile in Europe

- As yet no real Brexit impact on production – this may follow but for now, investment in new models/plant renewals continue ...
- Growth in EV product lines accelerates, especially at German VMs:
 - 3 VW factories switching to EVs
 - Skoda taking on ICE powered cars from Germany
 - New Skoda/SEAT plant in Eastern Europe
- BMW and Mercedes expanding in Hungary:
 - BMW partnership with JLR in EV technology
- Fiat Italy expanding production of Alfas and Jeeps, retaining Panda:
 - FCA-Renault merger proposed, provisionally agreed, cancelled and may yet be revived
- Ford expanding Romanian factory, while cutting jobs in Germany and UK
 - Adding van production for VW in Turkey while losing some van output to Mexico
 - General uncertainty re Ford Valencia
- PSA adding Opel model to Poissy factory in France, moving 208 to Slovakia and Morocco, and 2008 to Spain
- Volvo Belgium plant can't make enough XC40s

Changing geography of European production 2019-2024: base assumption, with “good” UK- EU deal

Key geographic shifts:

European car and LCV changes in production, by country 2019-2024



Winners

- **Hungary:** new BMW in 2021 and major expansion at Mercedes-Benz and Audi
- **Serbia:** adds baby Jeep and likely new VW plant
- **Italy:** retains Panda, adds Jeeps
- **Morocco:** adds PSA factory (208 from France)
- **Belgium:** new LYNK&CO models at Volvo, plus some V60s as XC60 moves from China to Sweden
- **Germany:** new models including EVs at all VMs

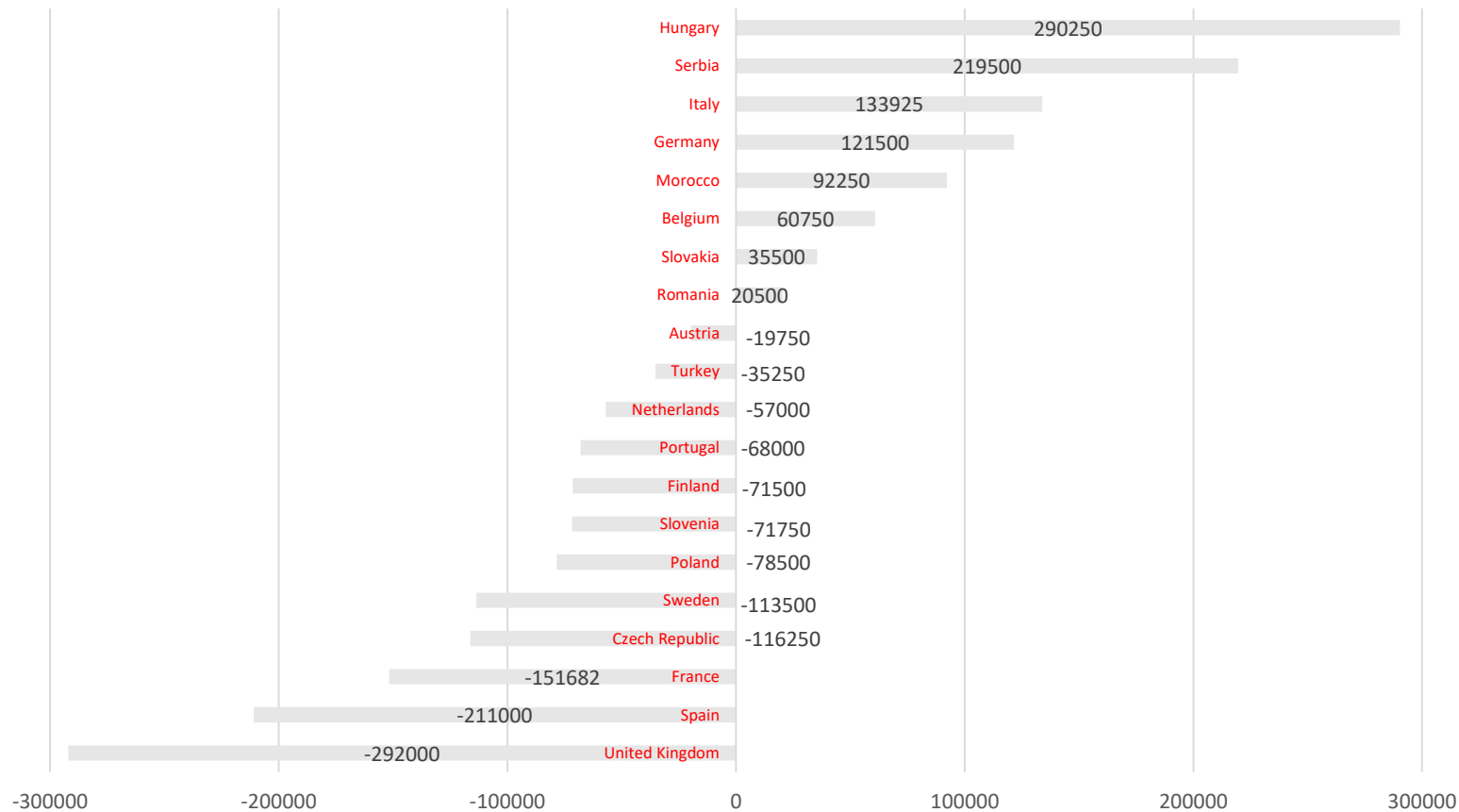
Losers

- **Finland:** loses GLC to Germany
- **Slovenia:** loses Smart to China
- **Poland:** Panda stays in Italy; Astra replacement uncertain
- **Sweden:** XC90 to US, model cycles in downward phase ...
- **France and Spain:** volume models in decline of phases model cycles, likely loss of Ford volume in Spain

Production will fluctuate just below 21m units

Changing geography of European production 2018-2024

With UK on WTO terms on permanent basis



In this scenario

- UK will be the biggest loser through to 2024, losing c300k over period
- Discovery, Honda, Nissan, Infiniti, Astra and possibly others ...
- Some van production could move to France
- Car production could shift in part to:
 - Germany
 - Slovakia
 - Turkey
 - And Japan ...

Issues for Wales' auto industry (1)

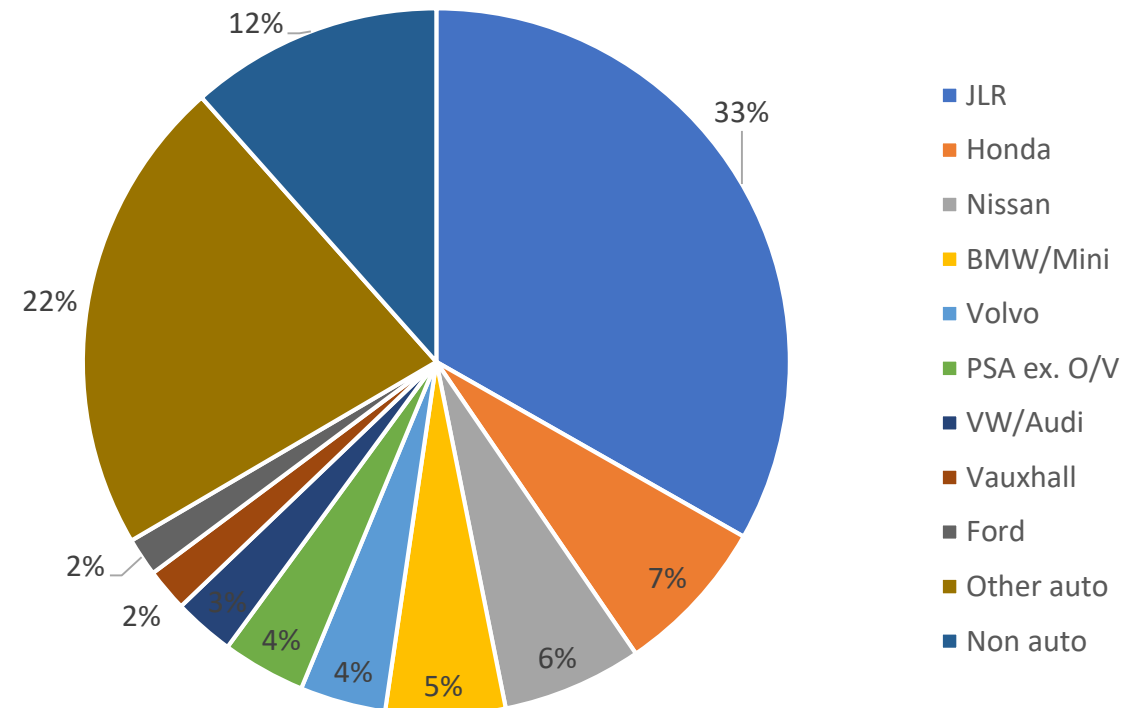
- Brexit clearly a major worry, but :
 - Ford Bridgend closure was not surprising and not really due to Brexit
 - Honda closure due to global trends: Brexit officially not a factor ...
 - Tata Steel: merger with ThyssenKrupp cancelled, leaving future of plant in some doubt ...
 - Opportunity in e-motor steel should not be missed ...
 - Toyota Deeside safe for current programme; sole source of 1.8 litre hybrid engine ... but what happens next remains unclear
 - And Aston Martin trial production under way ...

Issues for Wales' auto industry (2)

WAF survey of manufacturing members

- Very good response – please continue to keep WAF informed
- £1.3bn turnover across 50 companies identified
- **JLR c1/3 of business:** a potential risk ...
- 2 companies almost 100% focused on Honda: an obvious worry
- Others have a mix of business:
 - But concerns remain re: Ellesmere Port and JLR's Castle Bromwich plant
 - Ellesmere Port could have positive future in Hard Brexit ...
- Ford Bridgend sourced only a limited amount of components from Wales; but significant support services from Wales

WAF members business mix



In conclusion

- Current flux and political confusion will likely continue beyond October 31:
 - Negotiations on future trade and security relationship have not even started
 - Possible General Election?
- Decision-making environment very negative for UK:
 - Will there be another plant closure or model loss?
 - Will JLR confirm EVs for Castle Bromwich?
 - Mini and Astra decisions soon
 - Next Toyota decision not that far away ... Nissan too
- Repeat of April closures in autumn in Hard Brexit likely to be forced even if not planned for
- Next few months will be full of uncertainty and worry
- And UK production will definitely fall again this year