Just when I thought I had all my bases covered … I was wrong, again! What else is new? Yes, I am talking about the outbreak of the latest coronavirus – now officially named COVID-19 by the World Health Organization – which has been wreaking havoc in China and beyond. The virus has infected nearly 60,000 and killed 1,350 people in China alone, with two deaths and 465 confirmed cases in 25 other countries as of 13 February. It should be noted, however, that this is a fast-moving situation and these figures are changing on a daily basis.

Details of the impact on China's automotive market are available in our client alert dated 5 February. See also the related press release here.

"Several automotive plants in China resumed production in the week commencing 10 February, having been closed since the Chinese New Year holiday, but the risk has by no means subsided."

The industry is still assessing the impact of the outbreak on vehicle demand and the global supply chain, given that China is a supplier of both vehicles and auto components to the world. The impact varies by market and its magnitude will depend upon how long the supply disruptions last. Several automotive plants in China resumed production in the week commencing 10 February, having been closed since the Chinese New Year holiday, but the risk has by no means subsided. Even expert virologists have starkly conflicting views on whether COVID-19 can be contained or will progress into a global pandemic.

Plant shutdowns have not been limited to China, with further examples seen in South Korea, where Hyundai, Kia, SsangYong and Renault Samsung shut down several plants earlier this month, due to the disrupted supply of some components (most notably wiring harness) from China. And Nissan has announced a two-day suspension of production at its Kyushu plant in Japan. Suppliers, meanwhile, are concerned over parts supply shortages. Even in Thailand, where there is limited sourcing of vehicles and components from China, one of the suppliers our team is in contact with has expressed concerns over the supply of wearable toolings sourced from China.

"Oxford Economics recently revised down its 2020 forecasts for Chinese industrial output growth in value-added terms from 4.5% to 2.9%"

The impact of the outbreak on the Chinese economy will be significant. Oxford Economics recently revised down its 2020 forecasts for Chinese industrial output growth in value-added terms from 4.5% to 2.9% and expects the Chinese economy to expand at less than 4% year-on-year in Q1 2020. Our own forecast is for Light Vehicle sales to drop by 4% year-on-year to 24.5 million units this year.

The impact will be felt elsewhere in Asia, too, especially if the outbreak and the ensuing disruptions are prolonged, as China is the largest export market for many countries in the region and Chinese tourists are key contributors to their respective tourism sectors. Indeed, Japan is already dealing with a severe blow to its growing and increasingly important tourism industry.

Some experts believe that the current status of COVID-19 is just the tip of the iceberg. And, in our view, they are right as there is a far bigger issue at hand. These disruptions – be they from a new virus outbreak or natural disasters, such as the magnitude-9 earthquake and the ensuing tsunami that hit Japan in 2011, or the worst floods in 70 years that hit Thailand that same year – are ongoing and inherent risks. We can no longer view them as fluke incidents, not least because they are in part man-made. Until they are recognised and addressed as such, they will continue and probably increase in number, and they will need to be factored in as part of our ongoing risk assessment.