A glimmer of hope for the US auto market

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I almost feel like spring is passing me by. The start of the season coincided with the social distancing measures that saw many of us in the US being confined to our homes during the COVID-19 pandemic. Buds appeared on the trees, tulips bloomed, and geese flocked back for the season, but it did not really feel like spring had sprung as we watched the season unfold through panes of glass.

Perhaps we will have a second spring – a reawakening of sorts. We are already starting to see a glimmer of that in the US auto industry as the unexpected freeze brought about by the pandemic slowly begins to thaw. US Light Vehicle sales fell by ‘only’ 46% year-on-year in April, greatly outperforming expectations. While undoubtedly a poor result – the fourth worst sales month since the start of the century – it offers a hint of optimism as more state and local governments lift restrictions and increasing numbers of dealers open their doors.

And there is hope for US production, too. Daimler and Hyundai resumed production at their Vance and Montgomery Alabama plants, respectively, on 27 April – the first models to roll off their lines since March. The working life for employees at those plants has changed radically, however, given the raft of new safety measures in place to ensure minimal contact among the workforce, including regular plant sanitisation, enhanced distancing, mandatory face masks, and temperature checks upon entry. Shifts were also reduced during the implementation phase.

Other automakers are planning to follow similar protocols, including tweaking the manufacturing process itself to have fewer workers at each station. As restrictions are eased at the local and state level and, in the case of the Detroit 3, the UAW union has ultimately given the go-ahead for its members to resume work, these safety measures will curtail the speed of the ramp-up and eventual line rate. And while parts inventory is theoretically available – given the hard shutoff of vehicle production – it will take time to rebuild the supply chain as component suppliers implement safety measures of their own.

With these new protocols in place, the month of May should mark the start of a gradual revival in US output, following April’s near goose egg, although May volumes are still projected to decline by 65% year-on-year. Even with all plants back on stream, the chill in the air is set to linger for quite some time. Cooling demand, stemming from the economic impact of the pandemic, will feed into lower production volumes. As a result, we expect 2020 output to be below 9 million units for the first time since 2011, and 2021 will likely remain well below pre-COVID-19 projection levels.

We can but hope that when spring comes around again next year, a degree of normality will have resumed, with a little more in the way of warmth.