EU-UK trading relations: another layer of complication

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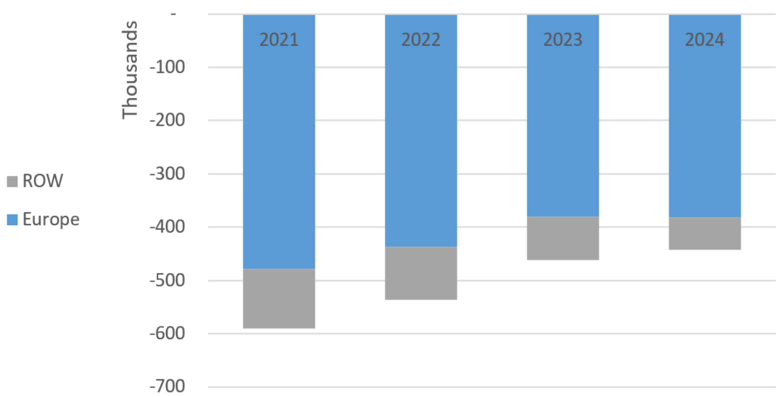
As we edge ever closer to January 2021, when a new EU-UK trade relationship becomes operational, agreement between the two sides appears increasingly elusive. Our base forecast, in line with that of our partner Oxford Economics, continues to assume that a free-trade agreement will be achieved, reflecting the need for a workable Northern Ireland solution and a desire to protect vulnerable industries. It will, however, see trade barriers in the form of customs bureaucracy and some regulatory barriers introduced. Despite this working assumption, the probability of negotiations eventually following this path, versus no agreement being reached, is finely balanced and each one leads to somewhat different prospects for the automotive sector, certainly on a regional and country-specific basis.

The alternative hard-Brexit path, in which the two parties revert to WTO trading terms, is bound to have a negative impact on vehicle demand through a number of key channels: tariffs being imposed on imported vehicles to the UK from the EU (almost 70% of Light Vehicles) and vice versa; a drag to economic growth; and currency fluctuations potentially exacerbating or offsetting tariff imposition. In view of the ongoing challenges that coronavirus is presenting to economic and automotive activity, this adds another layer of complication to planning for 2021.



Taking the above factors into account, away from our current base forecast for global Light Vehicle demand of circa 85 million units for 2021, modelling work undertaken in conjunction with Oxford Economics suggests that a no-deal situation could see the auto market pulled down by around 600,000 units next year alone. On the global stage, and with the impact of the pandemic fresh in our minds, this might not seem like a major impact, but with well over three-quarters of this loss centred on Europe, and focused particularly on the UK, those more heavily exposed locally will surely feel the impact if no deal is agreed. Considering that the demand drag would continue beyond next year – with a cumulative loss expected to be over 2 million vehicles to 2024 – and bearing in mind that over half of Light Vehicle production from the UK makes its way to the EU and that the vast majority of non-domestic UK automotive content is from the EU, the threat to future investment and, indeed, the viability of mass automotive manufacturing in the UK would certainly be called into question.