

 ARTHUR MAHER, HEAD OF EUROPEAN FORECASTING

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European inventories crash

While inventory data is not publicly available in Europe, recent events continue to highlight that inventory movements are a *critical component* to understand the likely evolution to build volumes.

European inventories are now showing new strains, with destocking in Q1 of circa -200,000 units, followed by a sharp -700,000 in Q2. We expect this to have continued into Q3 (-380,000), before starting to turn around in Q4 – although there is still uncertainty on this to some extent.



“European OEMs have been forced to trim build significantly, while incoming orders have slowed as both have been impacted by the chip shortage.”

Indeed, the destocking we project over Q1-3 exceeds that suffered by the sector in Q2 2020: 1.270 million versus 1.020 million. But a devastating collapse similar to that suffered in the wake of the Lehman Brothers crash (1.540 million) should not be ruled out, and this merely highlights the scale of the crisis currently being felt by the sector.

European OEMs have been forced to trim build significantly, while incoming orders have slowed as both have been impacted by the chip shortage. Oddly enough, European days' supply is looking healthy because we are in an unusual position where both the flow of build and the flow of orders are being impacted by what might be considered a unique set of circumstances.

000s	2015	2016	2017	2018	2019	2020	2021	2022	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Demand																	
Europe*	16,858	17,484	17,927	17,719	17,869	14,325	14,605	15,404	3,545	2,462	4,107	4,212	3,720	4,097	3,313	3,475	3,662
% Change YoY	3.9	3.7	2.5	-1.2	0.8	-19.8	2.0	5.5	-22.4	-48.4	-1.3	-3.7	5.0	66.4	-19.3	-17.5	-1.6
Exports to...																	
North America	1,302	1,456	1,517	1,490	1,359	1,039	1,208	1,233	241	207	280	312	310	367	268	262	250
South America	115	99	104	125	103	74	86	84	21	12	19	22	19	23	23	21	19
Asia-Pacific	1,267	1,267	1,327	1,353	1,284	1,148	1,198	1,120	248	269	291	341	309	321	279	289	275
Africa**	347	289	236	251	223	167	216	248	47	22	45	52	50	59	49	58	57
Middle East**	297	286	280	226	259	172	223	233	61	29	47	36	68	58	52	45	63
European Exports Sub-Total	3,328	3,397	3,465	3,446	3,227	2,600	2,930	2,918	617	538	682	762	757	828	671	675	664
% Change YoY	4.9	2.1	2.0	-0.5	-6.4	-19.4	12.7	-0.4	-20.1	-34.6	-14.2	-8.7	22.6	53.7	-1.7	-11.4	-12.2
Export Share %	15.9	15.8	15.6	15.6	15.2	15.7	17.3	15.1	13.2	24.0	15.5	14.4	16.0	19.6	19.8	14.9	14.0
Global Demand	20,186	20,880	21,392	21,165	21,096	16,925	17,535	18,322	4,162	3,000	4,789	4,974	4,477	4,925	3,983	4,151	4,327
Production																	
Europe	20,931	21,515	22,202	22,121	21,230	16,592	16,893	19,375	4,672	2,245	4,390	5,286	4,729	4,226	3,393	4,545	4,737
% Change YoY	4.2	2.8	3.2	-0.4	-4.0	-21.8	1.8	14.7	-17.6	-60.1	-7.5	1.9	1.2	88.3	-22.7	-14.0	0.2
Stocks																	
Stock Change	169	301	181	-3	-405	-401	-650	273	101	-1,025	265	257	-202	-694	-378	624	273
Stock Level	4,322	4,623	4,804	4,801	4,396	3,996	3,345	3,619	4,497	3,473	3,738	3,996	3,793	3,099	2,721	3,345	3,619

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If we were to assess the market's potential demand, then, clearly, the industry would be supply-constrained across the board. Rather than 60 days' supply, with constrained demand, we would probably be looking at circa 40 days' supply, with reference to 'real' underlying demand.

However, some OEMs have been more severely impacted than others, as illustrated in the Inventory Assessment table below.

European inventories crisis is being felt across the board.

This table should be studied with an eye on the benchmark. At a glance, we can see that Ford and Tata Groups were operating well below their benchmarks in Q2. For Q3, meanwhile, Daimler and RNM joined the 'critical list'.

What is clear, however, is that this inventory crisis is being felt right across the board.

With the notable exception of Ford, whose days' supply holdings collapsed by 25% in Q2, all the OEMs show slippage in days' supply holdings in Q3 and are now mostly operating below the level of inventories that they would ideally like to hold.

	End-of-Period Inventory Measure								Benchmark
	Inventory Holding				Days Supply				
	000s								
	2021Q2	2021Q3	2021Q4	2022Q1	2021Q2	2021Q3	2021Q4	2022Q1	
BMW Group	235	200	232	250	60	58	58	55	58
Daimler Group	262	232	270	291	61	53	62	54	60
Ford Group	113	145	218	236	49	57	60	63	67
Geely Group	81	71	78	88	48	42	55	52	48
Renault-Nissan-Mitsubishi	465	426	512	550	72	58	64	62	64
Stellantis	603	517	654	712	73	63	60	59	59
Tata Motors Group	80	80	95	116	59	56	60	72	64
Toyota Group	139	113	164	164	66	49	56	55	54
Volkswagen Group	769	618	785	872	72	62	60	56	59
Europe	3,099	2,721	3,345	3,619	69	59	61	61	61

*Partial data received from company quarterly financial results