Blog

EUROPEAN SALES FORECASTING TEAM

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European market outlook worsens

The Q1 2022 European Light Vehicle Sales Forecast (ELVSF) and report published recently reflect our best estimate of the impact of the deteriorating Ukraine situation on the automotive sector. The downward forecast revision for the period of 2022-2024 in Europe averages 2 mn units/year compared with our previous expectation contained in the report of three months ago, as the economy in Ukraine is devastated, new sanctions are imposed on Russia, and vehicle build is hit by the disruption to the supply of raw materials and components. The cuts to the forecast have been most significant in Russia and Ukraine, with Russia seeing western companies withdrawing as the country becomes increasingly isolated internationally. The Russia LV outlook has been cut by around one million units/year in the next few years, with even that position having some downside risk. Ukraine sales are now expected to dry up over the near-term as Russian forces attempt to press forward.

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The collapse in the Russian market could yet have the effect that this leads to a greater supply of vehicles elsewhere in Europe as scarce parts are diverted away from vehicles destined for the Russian market — in supply-constrained markets, this might actually boost European sales (excluding the Commonwealth of Independent States). However, we view this as more of an upside risk to the forecast — raising the base forecasts for Western European countries is difficult to justify as war rages in the east. Instead, we have lowered the outlook for Europe (excluding the CIS region) as the threat to supply chains has increased further. The fragility of supply in Europe has been highlighted by the semiconductor shortages and it is prudent to assume further impact on vehicle build in the region over the next few years. We continue to expect that selling rates in Europe (excluding the CIS region) will track a generally upward trajectory over the course of 2022, though a more pronounced lift-off of sales in the second half of the year because of a major improvement in component supply, is now not assumed.

While we believe the market remains supply-constrained, the gap between demand and supply could yet close as the former deteriorates, with underlying demand itself being eroded by high inflation, squeezed household budgets, rising interest rates and potential erosion of confidence. What is clear is that there remain many potential paths the war could yet take, and that itself highlights the uncertainty over the near-term outlook.