COVID-19 Automotive Outlook Flash Survey

In July 2020, Dykema, MICHauto and The Right Place canvassed automotive executives, professionals and service providers to gauge their perspectives on the U.S. economy and the automotive industry and, particularly, the effect of the COVID-19 pandemic.

Executive Summary

The automotive industry is a critical component of the U.S. economy, connected to a wide range of industries, from part and raw material suppliers (such as steel, aluminum, copper, glass, rubber, special fibers, plastics and chemicals) to providers needed for the day-to-day sale and operation of vehicles (such as dealerships, repair shops and mobility services). Given this key role automotive industry participants play in the economic ecosystem, survey participants noted a negative outlook for the short-term over the next 6-12 months, as their businesses have not been immune to the effects of the COVID-19 pandemic. Looking forward long-term over a 24-month span, respondents provided a significantly more positive outlook. This was true for respondents' outlook for both the U.S. economy and the rate of new supply chain orders.

References to "automotive industry respondents" in this survey includes OEMs, Tier 1 and Tier 2 suppliers, and vendors of technology and other products to the industry, who represented a majority of respondents. Survey results differed for this group in several areas, with automotive industry respondents reporting or anticipating more profound negative effects from COVID-19, especially in (i) the curtailment of their operations at pandemic onset, (ii) short-term view (12 months) of the supply chain's recovery, (iii) anticipated declines in revenues for 2020 through 2nd quarter 2021, and (iv) the short and long-term views of the U.S. economy, and a more positive long-term view (24 months) of the supply chain's recovery.

While 84% of automotive industry respondents suspended or shutdown their U.S. operations during the pandemic, only 20% reported suspending or curtailing U.S. operations after reopening. Virtually all automotive industry respondents expect revenue declines in the next year, with a majority expecting those declines to exceed 20%.

Respondents have seen or expect the COVID-19 pandemic to result in (i) a material increase in expenditures to keep their workers safe, (ii) a suspension of existing orders, (iii) the elimination or consolidation of automotive suppliers, (iv) supply chain interruptions, and (v) price reductions from their customers.

The survey polled respondents in six revenue categories, from under $1 million to over $1 billion, for 2019 sales. Approximately 60% of the automotive industry respondents fell in the mid-range between $10 million to $1 billion. A significant majority of our respondents, including our automotive industry respondents, were business executives, with the remainder consisting of lawyers, accountants, investment bankers, commercial bankers and other professionals and service providers.

Short-Term U.S. Economic Outlook Weak; Significant Improvement Longer Term

In light of continuing uncertainties surrounding the impact of the COVID-19 pandemic, respondents were decidedly negative (46%) about the U.S. economy over the next 12 months, with a majority (54%) of the automotive industry respondents reporting a negative outlook. However, the outlook shifted to decidedly positive when looking out 24 months, with a majority of respondents having a positive outlook, and 46% of automotive industry respondents sharing that perspective. With regards to the outlook for the U.S. economy over the next 24 months, the vast majority (76%) of respondents in this survey have a positive outlook over the longer term; with only 5.7% of respondents having a negative outlook. This bodes well for the U.S. economy based upon a 2019 survey conducted by Dykema, in which respondents told us that consumer confidence/spending were the most relevant economic indicators in the U.S.

U.S. Economic Outlook

	12 months			24 months		
	All	Auto	M&A	All	Auto	M&A
Positive	22%	18%	34%	54%	46%	76%
Neutral	32%	28%	36%	33%	41%	12%
Negative	46%	54%	30%	13%	13%	6%

Interestingly, in a separate Dykema survey of merger and acquisition industry participants conducted in June 2020, respondents were significantly more bullish on the U.S. economy over the next 12 months, with sentiment evenly split between positive (34%), neutral (36%) and negative (30%) and decidedly more positive (76%) about the U.S. economy over the next 24 months.

These differences in perspective may reflect a belief that the time frame for the recovery of the automotive industry may be longer than for the economy in general. Going into 2020, the automotive industry was already bracing for decreased sales of light vehicles (autos, vans, SUVs and light trucks), particularly in light of rampant concerns about a possible recession. But, no one could have anticipated the devastating impact that the COVID-19 pandemic would have on sales in 2020. IHS Markit projects that global light vehicle demand will drop 23% in 2020 and U.S. demand will drop over 25%.[1]

On a positive note, a majority (56%) of survey respondents believe that U.S. light vehicle production will rebound in 2021 compared to 2020. Although, a significant minority (29%) believe that production will continue to weaken in 2021, presumably due to concerns that COVID-19 will remain with us for an extended period of time.

[1] *IHS Markit*; June 9, 2020.

“With a sole source, just-in-time supply chain, the inability of a single supplier to manufacture its part—even on a limited basis—can shut down a production line. An OEM cannot make a vehicle with 99% of the parts, it needs them all,” explained Laura Baucus, a member at Dykema who directs weekly automotive supply-chain meetings at the Firm.

COVID-19 Severely Impacted Automotive Operations; But Smooth Plant Reopenings

The COVID-19 pandemic had an immediate and severe impact on automotive operations at the end of the first quarter and during the second quarter of 2020. Government stay-at-home orders, coupled with quarantine measures, resulted in the suspension or shutdown of U.S. operations, according to 84% of automotive industry respondents. Almost 50% of automotive industry respondents reported that they were required to shut down operations in Mexico as well. Many commenters expressed concerns that re-starting operations would be rocky because of anticipated disruptions in the supply chain, the implementation of new worker safety procedures, and the likelihood of intermittent shutdowns due to positive COVID-19 cases.

However, those fears, to some extent, were unfounded. The survey shows that re-starting automotive operations, with certain well-publicized exceptions, went relatively smoothly. In fact, only 20% of automotive industry respondents reported that they were required to suspend or curtail operations in the U.S. due to COVID-19 related issues *after reopening*, and only 5% in each of Mexico and Europe.

“The smooth restart is a testament to the strength of Michigan’s automotive industry. OEMs and suppliers were not only able to pivot to manufacturing PPE equipment in the face of a global pandemic, but that the re-opening was organized, thoughtful, and implemented almost seamlessly,” said Glenn Stevens Jr., executive director of MICHauto and the vice president of Automotive and Mobility initiatives for the Detroit Regional Chamber.

Wildly Popular PPP Program Aids Auto Suppliers

U.S. government stimulus programs were widely used by survey respondents, with approximately two thirds of respondents using one or more of such programs. The Paycheck Protection Program (PPP) was the government program most widely used by both automotive and non-automotive companies surveyed, with approximately 50% of respondents receiving a forgivable PPP loan offered by the Small Business Administration (SBA) under the CARES Act. Other respondents used or plan to use the refundable Employee Retention Credit (ERC) (16%), Emergency Income Disaster Loan or grants (EIDL) (10%) or the Main Street Lending Program (4%).

“Companies had to choose between a PPP loan or an ERC payroll tax credit,” explained Thomas S. Vaughn, who co-heads Dykema’s PPP Team. “Because of the forgivable nature of PPP loans and the more restrictive terms of the ERC tax credit for companies with more than 100 employees, it is not surprising that automotive suppliers with 500 or less employees or who otherwise met the SBA size standards favored forgivable PPP loans, as did businesses in many other industries.”

Will or did your company access any of the following sources of financial assistance during the COVID-19 pandemic?

Paycheck Protection Program Loan	50%
Employee Retention Credit	16%
Emergency Income Disaster Loan or Grant (EIDL)	10%
Main Street Lending Program	4%

“In order for automotive to stay open and continue operations, we need other industries to follow suit in employing critical and smart safety measures, both at work and at play. That is what will drive a path to recovery,” said Glenn Stevens Jr., executive director of MICHauto and the vice president of Automotive and Mobility initiatives for the Detroit Regional Chamber.

Forecast for the Automotive Industry: Short-Term Economic Challenges and Long-Term Rebound

A key indicator of the strength of the automotive industry is the status of orders for parts, components and raw materials in the supply chain. We asked survey participants: How did they foresee the rate of new supply chain orders in automotive businesses being impacted by the COVID-19 pandemic during the next six months, 12 months and 24 months, as compared to the first six months of 2020? Not surprisingly, in light of the decrease in demand for vehicles currently, 45% of automotive industry respondents expect decreases in supply chain orders over the next six months. However, respondents are more optimistic for 2021 and beyond, with 71% of automotive industry respondents foreseeing an increase, and only 4% foreseeing a decrease, in supply chain orders during the next 24 months.

When compared to the first six months of 2020, how do you foresee the rate of new supply chain orders in automotive businesses being impacted by the COVID-19 pandemic during the next:

	6 months		12 months		24 months	
	All Respondents	Auto	All Respondents	Auto	All Respondents	Auto
Increase	34%	34%	46%	46%	65%	71%
Remain Constant	29%	21%	34%	36%	28%	25%
Decrease	38%	45%	21%	18%	7%	4%

In addition to the volume of supply chain orders, we asked participants to identify various types of impacts that the pandemic has exerted and will exert on the automotive industry in the next year, proposing a list that included suspension or termination of orders, supply interruptions, operating expense increases, price adjustments, and industry consolidation. The majority of respondents (54%) foresee material increases in expenses to address health and safety measures for automotive operations. If there’s any surprise in this result, it’s that only a *majority* and not 100% of the respondents took that view, given the widespread plant modifications and adoption of safety measures by manufacturers to provide social distancing and other protections for their employees against contracting the COVID-19 virus.

A 63% majority of automotive industry respondents foresee a suspension of orders during the next 12 months, but only 25% predict a termination of existing orders, perhaps reflecting hope that the contraction is not permanent, and that a recovery could begin in the second half of 2021. A considerable number of respondents (45%) expect to see consolidation within the industry, and roughly 30% expect to see financial or other support rendered by OEMs for their respective supply chains. Price reductions are predicted by 35% of all respondents and 39% of automotive industry respondents. An inability to fulfill orders due to supply interruptions is expected by 36% of respondents, but only 29% of automotive industry respondents expect such interruptions.

"The Automotive industry remains the backbone of Michigan's economy and plays a critically important role in the U.S. economy overall," said Tim Mroz, Senior Vice President, Strategic Initiatives, The Right Place, Inc. **"Supporting this industry with economic development tools and resources as it recovers from the negative effects of the pandemic will be essential as we restart Michigan's economy."**

In what ways have you seen or expect to see the COVID-19 pandemic impact automotive businesses during the next 12 months?

	All Respondents	Auto
Material increase in expenditures for increased health and safety measures	54%	55%
Suspension of existing orders	50%	63%
Elimination or consolidation of suppliers	45%	46%
Inability to fulfill orders due to supply interruptions	36%	29%
Negotiation of price reductions	35%	39%
Financial or other support by OEMs to the supply chain	32%	29%
Termination of existing orders	23%	25%
Acceleration or increase in orders	20%	21%
Negotiation of price increases	18%	16%
Financial or other support by upper tier suppliers to lower tier suppliers	16%	7%

Revenues Negatively Impacted for 2020 through 2nd Quarter 2021

The magnitude of the expected impact of the COVID-19 pandemic on revenues was predictably large, with 44% of all respondents expecting their company's revenue to decline more than 20% over the next year and another 44% expecting declines between 1% and 20%. Automotive industry respondents were likewise negative, and in larger numbers: 54% expecting revenue declines of more than 20% over the next year, another 43% expecting declines between 1% and 20% and less than 4% expecting an increase in revenues.

About the Survey Respondents

Delivering the insider's perspective, more than half the survey respondents were automotive industry participants (OEMs, Tier 1 and 2, technology and services vendors, or other automotive product suppliers). The small and middle revenue sectors were the most represented, with 80% of respondents $1 billion or less in 2019 revenues and 20% with 2019 revenues over $1 billion.

We were fortunate to attract the attention of many senior level executives: 41% were either CEO, CFO or other company officers, and 23% who listed themselves as "Senior Executives."

Organization's 2019 Revenue		Role in Organization		Type of Business	
Under $1 Million	12%	C-Suite Officer	41%	Automotive Industry: OEM, Supplier, Vendor to Auto Industry	55%
$1-10 Million	22%	Senior Executive	23%	Professional Service Providers	25%
$10-100 Million	36%	Banker/Accountant	12%	Non-automotive Businesses, including manufacturers	19%
$100 Million - $1 Billion	11%	Attorney/In-house Counsel	11%		
Over $1 Billion	20%	Other	13%		

To learn more about Dykema's Automotive Industry Group, please visit www.Dykema.com or contact any one of our attorneys.

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