

# THE EV MARKET POST-COVID 19

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With manufacturing halted, employees on lockdown and showrooms closed, there had been little debate around the inevitable global downturn of the automotive market as a result of the Covid-19 pandemic. Historically, during periods of economic slowdown the automotive market is negatively affected. This was apparent following the 2008/2009 financial crisis when the European automotive market saw a c.40% decrease in peak-to-trough sales. Goldman Sachs is forecasting a more severe 78% decline in the European automotive market in Q2 2020 as a result of the pandemic. However, with the popularity of electric vehicles prior to Covid-19 on an upward trajectory, the question remains – will the positive growth of the electric vehicle market continue, and adoption rates hold steady, or will it follow a similar path to the wider automotive market?

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**Goldman Sachs is forecasting a 78% decline in the European automotive market. Will the positive growth of the electric vehicle market continue?**

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## NEW CAR SALES, MARCH 2020, YOY

## TOTAL EUROPEAN

52%

## TOTAL UK

44%

## ELECTRIC

108%

Bloomberg New Energy Finance (BNEF) suggests this dramatic increase in EV sales may be inflated due to European OEMs aggressively pushing EVs this year and delaying EV orders from 2019, in order to help meet strict EU emission regulations that were introduced at the start of 2020. These new regulations will see large fines for OEMs that fail to comply – with the fine being a function of the number of gCO<sub>2</sub>/km their average vehicle exceeds the target and their total sales volume.

Some have suggested that as a result of the pandemic there could be push back from OEMs against the new 2020 regulations, to allow them to offload their existing stock of ICE vehicles and provide a buffer from the impending financial blow. However, there are a number of arguments against this. Firstly, this kind of alteration to the regulation would disproportionately reward the OEMs that are behind in their conversion to electric drive-trains, relative to those who have already expended considerable capital to meet the EU targets. It therefore could be deemed anti-competitive. Not only would a delay negatively affect OEMs that have invested, it would have negative ramifications across the entire supply chain where a large number of companies have invested in the supply of electric componentry. Moreover, it is likely any adjustment would then need to be applied to the stricter 2021 target, making it almost impossible for the EU's 2025 and 2030 emissions targets to be met – an undesirable outcome for the European Union.

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**Reduction in overall sales volumes has aided manufacturers' ability to meet emission targets if EVs are aggressively pushed later this year.**

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It is also worth noting that despite the rumours of push back, Europe's largest automotive manufacturer, Volkswagen, has committed to meeting the CO<sub>2</sub> targets. Prior to the reopening of VW's Zwickau manufacturing facility in Germany, CEO Herbert Diess stressed the importance of the VW ID.3 electric hatchback in meeting the 2020 and 2021 targets, with orders being fulfilled in the second half of 2020.

Historically, European car sales have tracked closely to both consumer confidence and employment rates, therefore the extent to which the automotive market rebounds in H2 2020 is likely dependent on the recovery of these two metrics. Both will inevitably be disrupted by the current crisis and so it will be up to policy makers to ease these macro factors. Following the 2008/2009 financial crisis the UK government introduced a vehicle scrappage scheme which incentivised drivers to replace their polluting vehicle with a more environmentally friendly alternative. This was a successful policy to help kickstart the economy, with car sales rebounding in 2009/2010, and also helped reduce road transport's contribution to UK carbon emissions. If the UK was to implement a similar policy once again, it is likely that it would build on the UK's existing commitments to low emission vehicles, be met by a more environmentally conscious consumer than in 2008, and serve to overcome one of the biggest barriers to EV adoption – price point. Such scrappage schemes were introduced in the Netherlands in 2014 and have been noted as pivotal in accelerating EV adoption.

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**Will Covid-19 come to be seen as the necessary evil that was required to restart the world's environmental effort?**

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Covid-19 has caused the world to pause momentarily and during that pause, the environment has shown signs of temporary recovery, with air pollution levels in major towns and cities dropping dramatically. This has not gone unnoticed: world media outlets have prioritised comparison photographs of clear city-scapes and highlighted the positive environmental effects of the global lockdown. As a result, some have suggested that Covid-19 may come to be seen as the necessary evil that was required to restart the world's environmental effort, and accelerate us towards a greener future. Not only that, but there have been numerous reports noting the link between Covid-19 fatality rates and cities with poor air quality. Additionally, a recent interview with VW's Head of Group Design, Klaus Bischoff, has indicated that VW showrooms in China have seen an increased footfall post Covid-19, as public perception towards the safety of public transport has been negatively affected.

Finally, regardless of government incentives, we can optimistically hope that on the other side of the pandemic we will see a more aware, more environmentally conscious consumer, which will only enhance the already accelerating switch to electric vehicles.

## SOURCES

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