S&P Global Mobility forecasts 83.6M units in 2023 as light vehicle market cautiously recovers

The longer the supply squeeze lasts, the more potential there is for "lost" or "destroyed" demand.

SOUTHFIELD, Mich., Dec. 20, 2022 /PRNewswire/ -- Global new light vehicle sales will reach nearly 83.6 million units in 2023, a 5.6% increase year-over-year, according to a new forecast by S&P Global Mobility, a world leader in information, analytics and solutions. The auto industry continues to navigate supply chain challenges while confronted by several markets facing deteriorating economic conditions and fading pent-up demand. As semiconductor availability plays out, demand destruction is expected to take a more fundamental role in 2023, impacting production and the inventory restocking cycle.

Global new light vehicle sales will reach nearly 83.6 million units in 2023, a 5.6% increase year-over-year.

S&P Global Mobility remains wary on recovery prospects. Destroyed demand is a key feature of the tepid forecast outlook – impacted by a blend of general economic impacts, higher interest rates, tight supply chains, an intensifying affordability squeeze, higher new-car prices, weakening consumer confidence, and heightened energy price/supply concerns. Two trailing years of pent-up demand remains, but headwinds risk an orderly release—including patchy recovery patterns for semiconductor supply, energy risks (especially through a European winter), and logistics log jams. With the auto industry already operating at, or near, recessionary levels, the forecast outlook remains mixed at best.

"2023 is expected to be a year of recovery, but likely a cautious one as the world approaches a gloomy trio of anniversaries – three years of COVID, two years of semiconductor disruption, and one year of Russia-Ukraine war impacts," said Colin Couchman, executive director, global light vehicle forecasting, S&P Global Mobility. "The rapid zero-COVID policy exit in mainland China provides further food for thought as we approach the New Year."

Full-year 2022 light vehicle sales – projected to reach nearly 79.2 million units by S&P Global Mobility – represent a 1.3% decline from 2021 levels.

Market-by-market forecasts

Europe: The European auto industry is suffering supply frictions, stalling economics, energy concerns, higher raw material/component prices, and wider security unease. Western/Central European 2022 vehicle sales should post 12.9 million units (-6.7% y/y). Order fulfilment remains a struggle, with long waiting lists, stretched lead times and challenging logistics. For 2023, the narrative shifts from supply constraints to demand destruction. With a mild recession looming for Western Europe, 2023 demand is forecasted at 13.9 million units (+7.4% y/y), according to S&P Global Mobility.

"For Europe, the evolving electrification transition adds further uncertainty, especially for vehicle prices, model availability, wait-and-see customers, and lurking Chinese OEMs," Couchman said.

United States: US sales volumes are expected to reach 14.8 million units in 2023, an estimated increase of 7.0% from the projected 2022 level of 13.8 million units. "The US auto market is struggling, impacted by supply chain, labor, logistics, inflation, and wider economic concerns," said Chris Hopson, manager, North American light vehicle sales forecast, S&P Global Mobility.

"Ongoing supply chain challenges and recessionary fears will result in a cautious build-back for the market. US consumers are hunkering down, and recovery towards pre-pandemic vehicle demand levels feels like a hard sell. Inventory and incentive

activity will be key barometers to gauge potential demand destruction."

Mainland China: S&P Global Mobility analysts have rebalanced the outlook on the rapid zero-COVID policy exit, a still-weak economy, and ongoing stimulus. With 2022 set at 24.8 million units (+3.6% y/y), some demand fulfilment has been effectively delayed into 2023-24. For 2023, the CNY100 billion extension of NEV incentives and recovering local vehicle production should support domestic sales –2023 should see a recovery to 25.9 million units (+4.5% y/y), according to S&P Global Mobility. The market faces significant uncertainty as COVID infection levels could potentially surge following the ease in COVID rules.

Production recovery momentum eases for 2023

Global light vehicle production in 2022 is expected to finish at 81.8 million units – a hard-fought 6.0% improvement over 2021 levels – in a year that has been defined once again by supply chain constraints, debilitating lockdowns in China and, since February, the spillover effects of Russia's invasion of Ukraine, which has intensified the risk of widespread recession.

For 2023, S&P Global Mobility forecasts continued growth in output even against a backdrop which looks more challenging than the last 12 months. Light vehicle production levels are expected to rise by 4.0%, to 85.0 million units. While we entered 2022 imagining a return to pre-pandemic levels of production would be achieved in 2023, this optimism is now postponed until 2025 at the earliest.

In Mainland China, S&P Global Mobility forecasts modest production growth for 2023 of 1.1 percent, to 26.4 million units. Europe is expected to produce 16.6 million units in 2023, up from an estimated 15.6 million this year. For the North American region, upside pressure surrounding restocking and fulfilling pent-up demand provides support moving into 2023, with the forecast set at close to 15.1 million units.

Friction in the supply chain remains, not just involving semiconductors but also across labor and logistics – even if it is becoming harder to identify.

The structural semiconductor capacity deficit will take years to solve. While the supply-side issues won't see any immediate relief, the demand side will bring some respite. More of the existing capacity in the sector has been allocated to automotive since the second half of 2022, which will continue into 2023 due to slowing demand in other chip-hungry industries like telecoms and consumer electronics.

"These conditions may mask the ongoing capacity issues the auto industry faces," said Jeremie Bouchaud, director, semiconductor, E/E and autonomy practice, S&P Global Mobility. "The average chip content per car is increasing at an accelerated rate because of electrification, and the capacity deficit will resurface as soon as demand from other industries picks up again. The structural chip capacity deficit for cars will only be solved by 2024 at the earliest."

Though semiconductor availability remains an important consideration and continues to impact production operations, demand constraints are expected to play a more fundamental role and accelerate in second-half 2023 and into 2024, impacting production and influencing the speed and scale of inventory restocking.

Another major variable is emerging in Mainland China. While most of the world has adapted to living with COVID-19, the recent signals from Mainland China point towards a dichotomy that will be difficult to read. The recent relaxation of strict zero-COVID restrictions should free up businesses and services, but must be balanced against the increase in caseloads that will inevitably follow.

"The response of individuals, central and regional governments to these developments will be critical to the direction of the world's largest market next year," said Mark Fulthorpe, executive director of light vehicle production forecasts, S&P Global Mobility.

Electrification looks unstoppable

This year saw many OEMs double down on electrification ambitions for the coming five to 15 years, with 2022 seeing some carmakers dramatically scrambling to catch up. China's NEV policy, Europe's "Fit for 55," and the USA's IRA have moved the goalposts, resulting in electrification becoming firmly embedded in policymakers' visions for a greener future for mobility.

S&P Global Mobility projects global demand for battery electric passenger vehicles is on track to hit almost 10 million units for 2023, accounting for an estimated 13.3% of global passenger vehicle demand.

As many markets shift to greater levels of electrification, we expect vehicle pricing to be pressured to the upside, presenting a headwind to demand in the short-to-intermediate term. Longer-term questions remain, especially regarding charging infrastructure, grid power, battery supply chains, and the appropriate level of policymaker support to help smooth the transition from fossil fuel vehicles to electric vehicles.

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