



The impact of the Russia-Ukraine war on the auto industry

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The decision by Russia to invade Ukraine on February 24, 2022 has had immediate impact on the automotive sector in four key areas. In this brief paper, we look at how the war and sanctions on Russia have already disrupted automotive supply chains and markets. We discuss how component and likely parts shortages will affect production and how rising costs could impact consumer demand. We look at the impact on parts suppliers and the impact on raw material supplies and prices.

Vehicle production

The war further exacerbates the supply chain blockages and semiconductor shortages that have already limited supply. LMC automotive estimates that global production will be cut by 400,000 units, reducing global auto sales in 2022 to 85.8 million. That's well off the 93 million that could be sold if automakers could fill demand.

The shortfall will continue to put upward pressure on new and used car prices. At the same time, higher gas prices and rising interest rates raise the cost of vehicle ownership, potentially triggering a significant drop in vehicle demand.

Russia is home to 34 auto manufacturing facilities producing cars, trucks, vans, buses and engines.

- Most plants have suspended operations due to parts shortages, sanctions, and delivery bottlenecks at the Russian border.

- Share prices of many automakers with significant operations in the region have dropped. The situation puts additional pressure on gross margins, which have fallen by 8 to 10 percent in the past six quarters.
- Many automakers have ceased exporting vehicles to Russia.
- Affected players include VW (Including Audi and Porsche), Mercedes-Benz Daimler, BMW (including Mini), Honda, Toyota, Volvo, Nissan, Land Rover, and Ford.

Production is disrupted across Eastern Europe, too.

- Hyundai, VW, and Toyota in Czech Republic; Stellantis in Belarus; Ford, VW, and Stellantis in Poland; Kia, Peugeot, Land Rover, Audi, Porsche, Seat, Skoda, VW in Slovakia.
- Batch releases of "shy built" vehicles missing parts such as semiconductors and wiring harnesses will throw off traditional methods of forecasting for seasonality.
- Prices will remain inflated or increase further.

Suppliers

- Not many parts suppliers operate in the conflict regions, but key components such as wiring harnesses are made by subcontractors in places such as Ukraine.
- Leoni AG, which makes wire systems in Ukraine that it ships to European auto makers, shut its two factories in Ukraine and furloughed roughly 7,000 employees in March.
- Magna International Inc. said it is halting its operations in Russia, which includes six plants and about 2,500 employees.
- Automakers that depend on parts from China and Eastern Europe are forming task forces to plot alternative trade routes for part supplies.

Raw materials

Russia is a major source of palladium and neon gas, which are required for auto parts (e.g., catalytic converters) and semiconductor production. Overall, precious metals prices have increased by 10 to 30 percent. Rising oil prices increase costs for tires, plastics, paint, etc. Raw material price increases, if passed on to consumers, would raise vehicle prices by 2 to 3 percent.

- The war and sanctions on Russia will have direct impact on key commodities
 - Russia is the third largest nickel supplier
 - Russia supplies around 33 percent of the world's palladium.
 - Palladium prices have increased by more than 26 percent since January 1.

Summary

- Semiconductor supplies may not be disrupted for two or three months, but the unavailability of neon from Russia could exacerbate chip shortages and increase logistics costs.
- Companies forced to suspend production in Russia or due to war-related supply-chain constraints can expect declines in forecasted quarterly and annual sales.
- Relocating production to other countries would involve huge capital costs and would require detailed analysis of resource import routes to avoid delays in exports and imports.
- The Russian automotive faces a long-term negative impact, which will affect the Russian economy.
- The imposed restrictions will create an opportunity for other suppliers (outside Russia) to establish a strong position in the region.
- Fundraising by companies, either through domestic equity sales or bond/loan issues overseas, may be delayed due to the ongoing volatility in global financial markets. This may affect the many auto start-ups (especially in the U.S.) which had been preparing for public share listings.

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