NatWest UK Regional PMI®

NatWest

UK automotive sector performance and the road ahead for regional manufacturing

June 2019

PMI® By IHS Markit

Introduction

It's not time to batten down the hatches. Collaborative solutions are needed to capitalise on the pace of auto innovation

The challenge for the UK automotive sector is to chart a course through the intense industry headwinds that are so clearly evident in the report findings. At NatWest, where we are committed to playing our role to support the automotive sector, we believe that new collaborative models hold the key to success.

At this critical juncture for automotive sector growth and investment, we must accelerate efforts to collaborate across the critical elements of the auto sector ecosystem - OEM's, supply chain, policymakers, investment and finance communities.

These connections will help ensure that the UK can deliver the industrial capacity, infrastructure and regulatory framework to maintain and build on its leading role in the future global automotive sector ecosystem.

The prevailing malaise will eventually be seen as a cyclical issue for automotive manufacturers, albeit a slowdown that has taken hold more quickly and become more widespread internationally than first anticipated.

We have seen the softening of automotive demand amplified by an escalation of policy uncertainty worldwide. Most notably, diesel emissions regulations, changes to the planned speed of transition to carbon neutrality in Europe and new US-China trade tariffs.

The resilience of the UK automotive sector is well proven, with a track-record of leading routes to recovery and advancement. Manufacturers have faced and overcome 'perfect storms' before, most recently in the wake of the 2008/09 global financial crisis. The current storm is as significant with different factors at play therefore requiring new and innovative solutions.

The coming global shift towards electric powertrains is opening up huge rewards for value creation across the supply chain, while the technologies underpinning the future of mobility may create new geographic hubs for industrial innovation.

It is my firm belief that the UK is well placed to thrive in an environment of technology-driven automotive trends, but we must act fast and think collaboratively to maximize the opportunities ahead.

Richard Hill

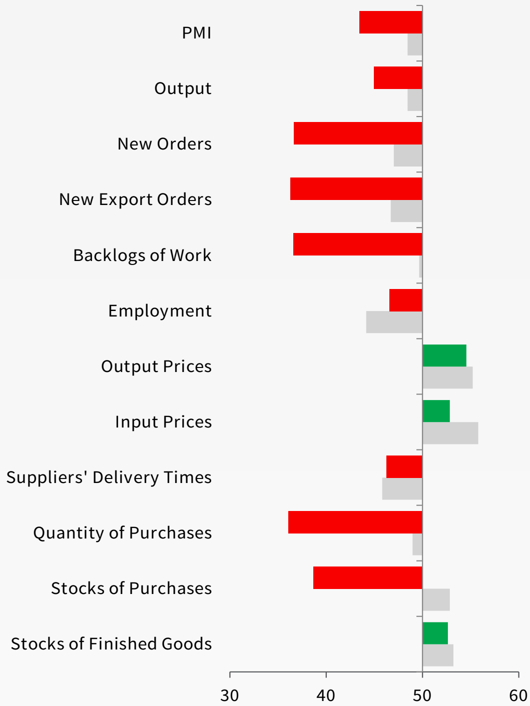
Head of Automotive & Manufacturing, NatWest

Contents

Data summary

UK Automobiles & Auto Parts PMI®

sa, >50 = growth since previous month, May-19 (YTD Ave)



UK automotive sector manufacturers continue to play an outsized role in the trajectory of regional economies and the outlook for international trade.

As the lifeblood of domestic supply chains and with a deep footprint in local labour markets, the health of the automotive sector is of critical importance to UK and regional manufacturing prospects in 2019.

It is against this backdrop that we have compiled new PMI® data to examine the production trends, challenges and global economic landscape faced by UK automotive sector manufacturers.

We begin by looking at the recent performance of automotive manufacturing in the UK, according to new indices derived from a panel of automotive sector respondents to IHS Markit's Purchasing Managers' Index® (PMI®) surveys.

At 43.5 in May, the headline seasonally adjusted UK Automobiles & Auto Parts PMI - a single figure measure of developments in manufacturing conditions - registered below the crucial 50.0 no-change threshold for the second month running. The latest figure was down from 48.9 in April and signalled the sharpest downturn in business conditions across the UK automotive sector for six-and-a-half years.

Aside from a brief upturn during March amid a Brexit-related surge in production volumes and stockpiling, the index has signalled softer operating conditions in each month since June 2018.

The downturn in UK automotive sector output, order books and employment in the second quarter of 2019 has been amplified by a payback from extended production schedules in March. Survey respondents widely commented on softer domestic demand following production stoppages at volume manufacturers and a reversal of stock building across the supply chain.

Looking through the noise of unseasonal production shutdowns, the recent PMI figures nonetheless indicate the worst period of underlying demand since late-2012. Export sales were especially subdued in May, with automotive sector manufacturers pointing to the steepest drop in new orders from abroad since April 2009.

Uncertainty regarding future trading relationships are a clear concern for UK manufacturers and appear to have amplified the recent slowdown. However, comparisons of the UK Automobiles & Auto Parts PMI data against international benchmarks illustrate that manufacturers have faced declines in order books of a similar scale to those seen across Europe and further afield.

A wider set of challenges are holding back the automotive sector, which are systemic in nature and global in scope. In fact, the Global Automobiles & Auto Parts PMI figure for May was the lowest since February 2013 and the weakest of all sectors monitored by the IHS Markit data.

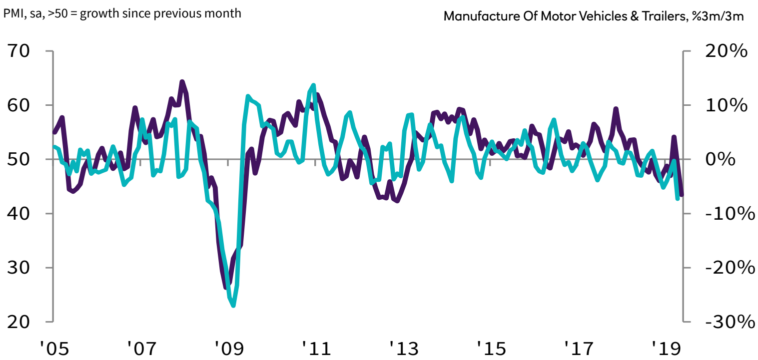
Major geopolitical disruption in the form of US-China trade frictions and the prospect of new tariffs has rippled through international supply chains. A subsequent rise in risk aversion and lower appetite for capital spending has added to industry-specific challenges for automotive manufacturers.

Survey respondents to the Manufacturing PMIs across the world overwhelmingly cited trade uncertainty as a threat to the business outlook in May. Potential disruption from global trade frictions adds to the challenges faced by global automotive producers from new diesel regulations, transition to electric vehicle production and subdued consumer demand in key markets such as China.

Despite the current malaise across the global automotive sector, the economic impact of UK-based light vehicle manufacturers has expanded strongly over the past decade. In fact, NatWest's UK Regional PMI® surveys illustrate that the recovery in automotive production has been a key factor behind rising order books, employment and productivity across the North of England, Wales and the West Midlands in recent years.

The contribution of vehicle sales to UK goods exports still stands at an elevated level, which has helped to boost growth across the domestic supply chain. With this in mind, our final section looks at the automotive sector's employment footprint, which accounts for more than 40% of the manufacturing workforce in several local authorities.

UK Automobiles & Auto Parts PMI® / Index of Production (Motor Vehicles & Trailers)



Sources: NatWest, IHS Markit, Office for National Statistics

UK Automobiles & Auto Parts PMI®

Automotive sector output fades amid plant stoppages and weaker export demand in Q2 2019

Stephen Blackman

> "Developments in technology, automation and consumer preferences are driving profound structural change."

I would advise those with a gloomy disposition to currently avoid economic data for the UK's automotive manufacturing sector.

Output fell 13.4% between March and April, the biggest drop since the three-day week in 1974. The sector is technically in a recession, with the pain particularly acute for car production, where output sank by a record 24% in a single month in April, contributing towards the sizable 0.4% contraction for the total UK economy.

Yet news, both good and bad, often comes with caveats supplied. And it's no different here. First, April's stark decline was not entirely unexpected. The size of the fall was due to production shut downs that were both well planned and publicised. The less erratic quarterly trend, while still showing a fall, dropped a more modest 2.7% in the three months to April. Second, while Brexit is undoubtedly an actor in this drama, the full cast-list is wide and varied.

Bad news likes company and the UK is certainly not alone is feeling the pressure. Germany's automotive output fell 6% in April, while the number of cars produced is down by around 11% since 2017. As in the UK, poor automotive manufacturing is contributing to a general slowdown across the Eurozone economy.

Indeed, across the world, the automotive industry is facing a range of distinct headwinds, each of which is weakening consumer demand for cars. In addition to 'dieselgate' there was the introduction of a more rigorous emission testing procedure plus growing unease about the direction of the global economy. An unhelpful combination sowing further consumer confusion about their outlook for personal finances and the future of cars.

Because adding to these 'one-off' or cyclical factors, the sector is also undergoing a period of profound structural change, driven by developments in automotive technology, automation and shifts in consumer preferences. While vehicle production and sales are down, registrations of Electric and Alternative Fuel Vehicles increased by 13.8% in the year to May, reaching a 6% market share. And while 72% of us now drive, more than ever before, we're driving less (1,400 fewer miles each year on average) compared with 2003.

While factors such as uncertainty will eventually clear, others are trends set to shape the industry for years to come. The sector currently plays an important role in the UK economy. Transport manufacturing added £15.4 billion to UK GVA in 2018, or 0.8% of the total. Nearly 190,000 people are directly employed in manufacturing, with almost 0.9m across the whole industry.

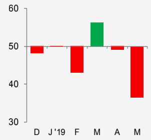
It's productive work too. Automotive jobs created £51 for every hour worked in Q4 2018, almost £16 more than the average. Few industries outside Finance, IT and heavy industry add more value per hour. It invests heavily, especially in the critical innovation-augmenting assets such as R&D. The transport sector contributed 15% of UK businesses R&D investment in 2017, or £3.6bn. That's a 191% increase since 2010.

So, while the sector's current weather is indeed gloomy and the UK's place in this evolving automotive landscape is not yet set, at least the foundations are good.

Stephen Blackman,
Principal Economist
NatWest

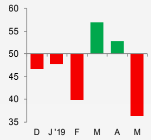
New Orders Index

Last six months



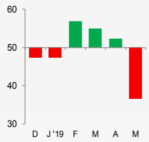
New Export Orders Index

Last six months



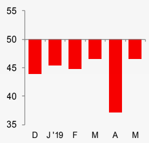
Backlogs of Work Index

Last six months



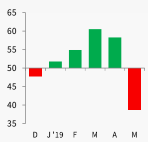
Employment Index

Last six months



Stocks of Purchases Index

Last six months



Additional charts for the UK Automobiles & Auto Parts PMI are included in the appendix.

New order volumes contract sharply in May

Automotive sector firms signalled difficult demand conditions in May, with new business contracting at a sharp rate. The fall in new orders was the fastest since the height of the global financial crisis in 2009. The drop in demand was apparent among domestic and foreign clients, with many hesitant to place orders following stockpiling activity in the first quarter.

Excess capacity evident at automotive firms

The seasonally adjusted Backlogs of Work Index signalled a steep decline in the level of outstanding business at automotive manufacturers in May. The contraction was the largest for almost a decade and contrasted with sharply rising backlogs in the first quarter of 2019. Manufacturers commented on lower new order volumes and a corresponding rise in spare operating capacity.

Employment reduced further

May data indicated another fall in workforce numbers across the UK automotive industry. The decrease in staffing levels contrasted with a marginal rise across the wider UK economy.

Although the rate of contraction in employment eased from April, when it reached the fastest for nearly ten years, the latest data extended the current sequence of job shedding to 14 months. Lower domestic and foreign sales, alongside a marked decrease in work-in-hand all contributed to the latest job losses.

Prices charged inflation remains solid

UK automotive manufacturers continued to increase their average prices charged at a solid rate in May, with firms passing on higher cost burdens despite weak demand conditions. The pace of output price inflation outstripped that seen at the UK level.

Meanwhile, manufacturers in the automotive sector indicated that raw material and component prices increased at the softest pace since the current sequence of inflation began in May 2016. The rate of cost inflation was also down sharply from its ten-month high in April.

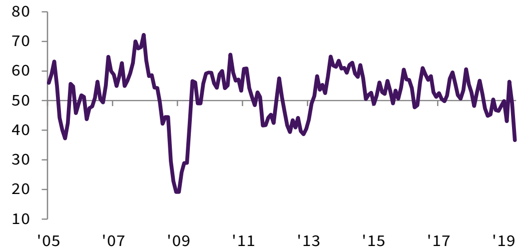
Efforts to clear inventories stepped up

Inventory strategies have emerged as a key short-term driver of new order flows in 2019, amid widespread reports of Brexit stockpiling and supply chain uncertainty among export clients. Following a survey-record spike in stocks of purchases across the UK automotive sector in March, inventories were unwound sharply in the latest survey period.

At the same time, stocks of finished goods rose at a softer pace in May as firms increased efforts to deplete inventories following weaker demand.

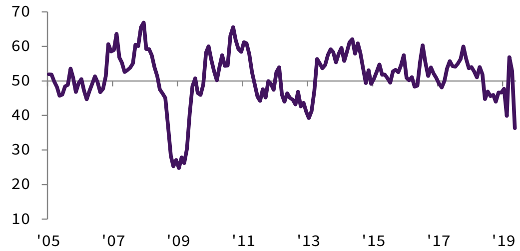
New Orders Index

sa, >50 = growth since previous month



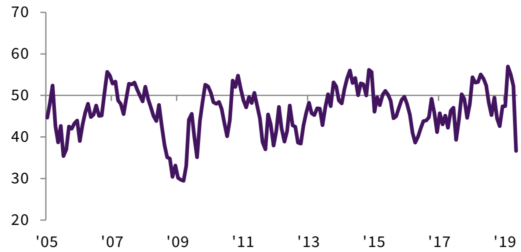
New Export Orders Index

sa, >50 = growth since previous month



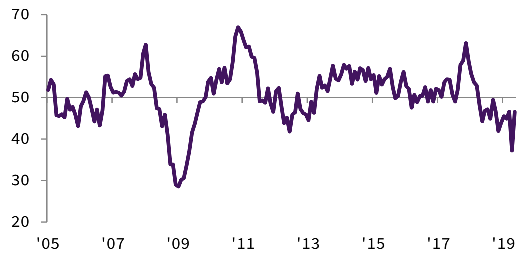
Backlogs of Work Index

sa, >50 = growth since previous month



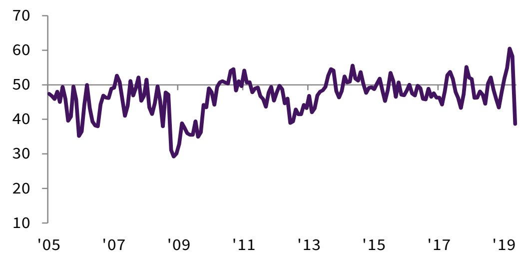
Employment Index

sa, >50 = growth since previous month



Stocks of Purchases Index

sa, >50 = growth since previous month



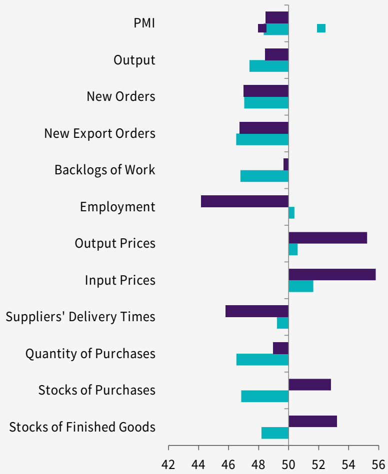
Global Automobiles & Auto Parts PMI®

Worldwide decline in automotive sector production accelerates in May

Automobiles & Auto Parts PMI®

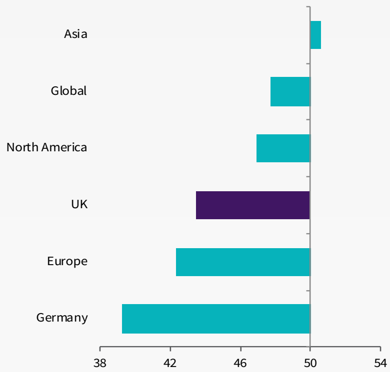
UK vs. Global trends, Year-to-date 2019

sa, >50 = growth since previous month, UK Global



Country / region rankings, May 2019

PMI, sa, >50 = growth since previous month



PMI data signalled further struggles for the global automotive sector in May, with only Asian manufacturers indicating growth. Weakness was centred on European producers, especially those in Germany.

Difficulties surrounding softer demand from China and new emissions standards have commonly been linked by survey respondents to the global decline in output, which began in October 2018.

The headline Global Automobiles & Auto Parts Purchasing Managers' Index® (PMI®) – a single figure measure of developments in overall business conditions – posted 47.7 in May, down from 48.0 in April and signalling the greatest deterioration in operating conditions across the global automotive sector since February 2013.

At the regional level, the downturn was led by European manufacturers, who registered the fastest overall decline since November 2012. Only Asian automotive sector firms maintained overall growth, albeit at a marginal pace.

Production and inventories

Global automotive and auto parts producers registered an eighth successive decrease in production in May, largely linked to difficult demand conditions. The rate of contraction quickened to the fastest for three months. The European downturn was especially sharp, with the pace of decline among the quickest since 2012.

Inventory levels worldwide continued to fall in May. Stocks of purchases decreased at a sharper pace than in April amid less robust new order volumes and trade tensions. Likewise, post-production inventories were depleted further during May.

Order books

The gloomy start to demand conditions in 2019 continued during May, as new orders fell further. Although the decrease was softer than that seen in April, it contrasted markedly with the first half of 2018 when a sustained rise in new business was recorded. European and North American automotive manufacturers registered steep contractions in client demand during the latest survey period. Asian producers, meanwhile, struggled to gain new order growth momentum and reported only a fractional increase in new business.

Meanwhile, amid global trade frictions and a slowdown in demand in the world's largest car market, China, new export orders on a worldwide basis fell for the ninth successive month in May.

Employment

In contrast to the solid reduction seen in the UK, employment across the wider global automotive sector declined only fractionally in May. Workforce numbers have fallen twice in the last three months. However, helped by broadly unchanged staffing levels in North America and a rise in employment in Asia, overall rates of decline have been only slight.

Supplier performance

In line with reduced new order volumes, global automotive producers reined in their purchasing activity in May. The decrease in input buying was the steepest since June 2012. Firms also attributed the downturn to sufficient stock levels and cost-cutting initiatives.

Meanwhile, suppliers' delivery times improved for the second month in a row in May. The modest reduction in lead times was commonly linked to a fall in demand for inputs and a corresponding rise in space capacity across the supply chain.

Nigel Griffiths

"The decline in China's autos market is far higher than would be expected given the gradual slowdown in the economy."

China's auto market is transitioning from a "Growth" phase to a "Pre-maturity" phase. This means that we expect car sales to exhibit far lower elasticities to GDP or average per capita income growth than seen in the past.

However, this transition has long been factored into our forecasts for China's car market and can't on its own explain the sudden correction in the market.

China's light vehicle market has continued to slump well into 2019. Reading the outlook for the automotive market has become increasingly difficult in the face of several policy distortions, dealer destocking, consumer uncertainty, and tariff wars with the United States.

Many of these factors are making the sales slump sharper than expected. Wholesale vehicle sales have continued to be alarmingly weak in early 2019 and are likely to be down by around 12% in the first half of the year. Dealers have cut back on orders from assembly plants and the destocking has amplified the published decline in factory sales for several months.

In particular, early implementation of China 6 emissions standards is causing turmoil in the market and pulling down sales more intensely for technical reasons that will not persist. Provinces worth more half of car sales have, with less than three months' notice, announced intentions to bring forward the implementation date from July 2020 to July 2019.

The most perplexing part is that the decline in the market is far higher than would be expected given an only gradual slowdown in the Chinese economy and the now ample distance from the end of the auto tax cuts. No other major consumer sector in China has slowed as much as autos. This may suggest that other factors such as the 2018 clampdown on shadow bank financing may have had a more serious impact on auto loan financing than widely thought.

One smoking gun we believe is the role of "unconventional finance" - third party financing including "peer to peer" lending - part of China's shadow banking system. Rapid growth in this area in recent years now appears to have 'facilitated' car purchases, effectively bringing forward future demand into 2016 and 2018. This 'head fake' may have extended to over 1m units of above trend sales.

The bubble, however, burst eventually amid the government's clampdown on unregulated lending. By April 2019, total "peer to peer" lending has fallen by around two-thirds compared to 2017. The sudden absence of this relatively new financing avenue for even partial car financing is unlikely to be easily replaced by conventional bank lending and so the one-off downshift in sales will likely persist.

The trade truce between the United States and China ended in early May after the former imposed the third escalation of tariffs to include 25% on additional $200bn of imports. It is clear that China's economy will slow faster in the second half of 2019, which could indirectly lead to a loss of at least another 200,000 units of car sales. If maintained, the impact would get considerably worse during 2020.

On balance, although there are some positives from earlier government announcements (significant VAT cuts and income tax reductions) which will help stimulate consumer spending and could help underpin vehicle sales, we now expect car sales in China to fall by 4.8% in 2019.

Nigel Griffiths,
Chief Automotive Economist
IHS Markit

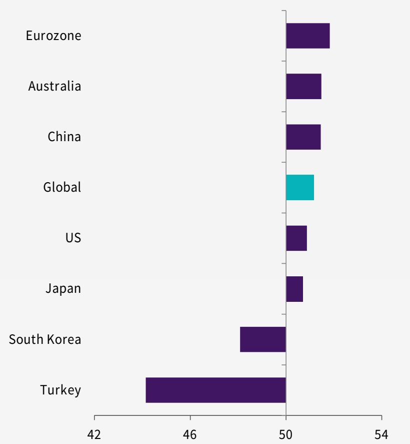
Global Economic Context

US-China trade frictions contribute to weakest global manufacturing conditions since 2012

Global PMI® data

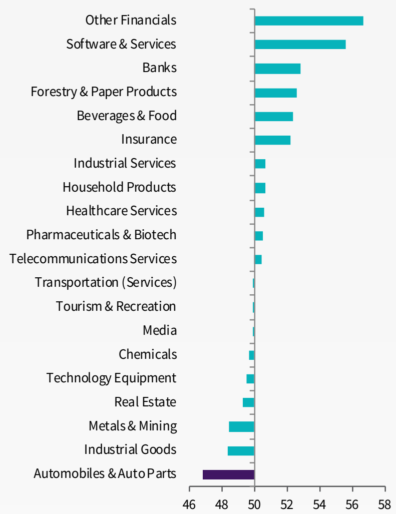
Economic conditions in key export markets

PMI Output Index, sa, >50 = growth (May '19)



Global sector performance rankings

PMI Output Index, sa, >50 = growth (May ' 19)



Worldwide economic growth shifted down another gear in May, with IHS Markit's PMI® data signalling the slowest overall rate of business activity expansion for three years amid the softest manufacturing performance since October 2012.

The latest PMI survey findings add to evidence that a trade-led global economic slowdown is amplifying industry-specific challenges faced by the automotive supply chain in the UK and across the world.

At 51.2 in May, down from 52.1 in April, the seasonally adjusted Global Composite PMI compiled by IHS Markit revealed the slowest rate of output growth since June 2016. The index is indicative of worldwide GDP rising by just 1.75% year-on-year in May, which is much weaker than the cyclical peak seen in Q4 2017 (2.9%).

The prospect of a prolonged US-China trade dispute has disrupted international supply chains, sparked greater risk aversion and led to weaker spending on capital equipment so far in 2019.

Global manufacturing slowdown

Goods producers have faced the sharpest loss of momentum, with the latest PMI surveys indicating the smallest expansion of global manufacturing output for six-and-a-half years. Softer manufacturing conditions reflect lacklustre production trends across both developed and emerging markets in the first half of 2019. Weakness has been concentrated in nations with an export-led growth engine, especially Germany, China and Japan.

A number of nations in the ASEAN region have bucked the recent manufacturing soft patch. Vietnam, Thailand and the Philippines have all signalled improvements in production volumes during 2019 to date, helped by a boost from efforts to diversify international supply chains.

Trade frictions hold back export sales

The latest Global PMI data revealed that worldwide manufacturing export sales have fallen in each of the past nine months, which is the longest period of declining trade volumes since the start of 2013. At the same time, the number of PMI survey respondents citing trade concerns as a factor holding back business optimism reached an all-time high in May, according to figures calculated by IHS Markit.

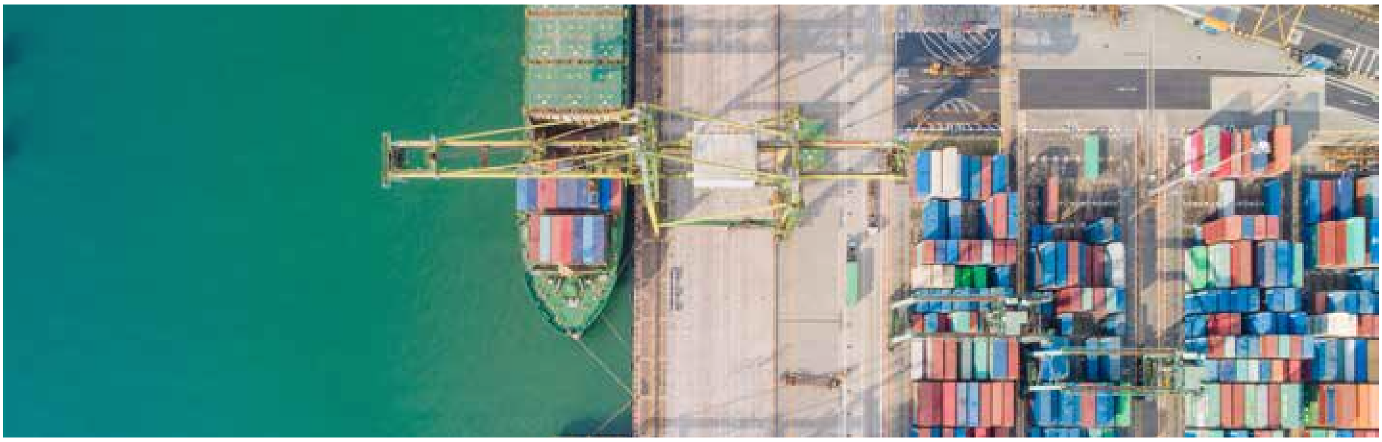
Heightened uncertainty about the outlook for trade conditions has added to the drag on global automotive sector production. However, the underperformance relative to other export-driven product categories such as industrial goods, metals & mining and technology equipment is a clear sign that industry-specific difficulties in the automotive supply chain are amplifying the impact of the global trade slowdown.

Manufacturers of automobiles and auto parts signalled the sharpest fall in output of all sub-sectors monitored by the Global PMI in May. Survey respondents overwhelmingly linked falling workloads to weaker consumer demand in European and Asian markets, disruptions related to new diesel regulations and rapid changes to the automotive supply chain as volume manufacturers accelerate plans for the transition to electric vehicles.

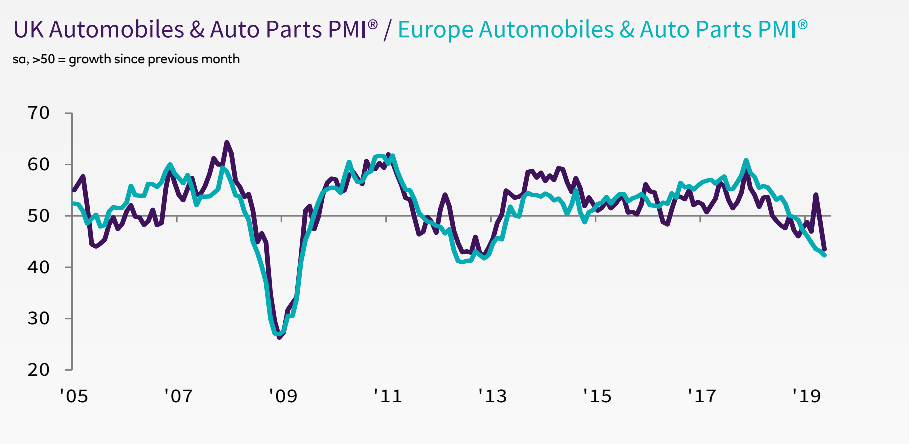
UK automotive sector export climate

We have used the Global PMI surveys to compile a trade-weighted index of economic growth in the major export destinations for the UK automotive sector.

This index - which provides a signal of underlying customer demand in export markets - slipped to 51.2 in May 2019, down from 51.7 in April and pointed to the most challenging climate for six years. The latest slowdown was driven by a sharp loss of economic growth momentum in the US, which accounts for nearly one-in-five UK-built vehicle exports according to figures published by the SMMT.



IHS Markit Automotive



IHS Markit Automotive provides industry insight, analysis, forecasts, data, and consulting services for the global automotive industry.

After a decade of recovery and growth to new record levels, global auto sales have hit the brakes. Auto sales failed to grow for the first time outside of a global recession. In fact, light vehicle demand fell by 0.5% in 2018.

The outlook for 2019 now suggests that not only is a rebound unlikely, but the downturn will intensify this year. Current projections suggest light vehicle sales will slide between 2% to 3%.

There are three broad reasons that explain the unusual and sudden disconnect with the relatively resilient macro economy; mature markets, China, and special situations.

Mature markets

Almost all the mature markets have now reached the end of a long recovery cycle in vehicle demand. Pent up demand has been exhausted to the point that even growing economies with falling unemployment cannot offset the slip backwards in demand. Strong employment growth in the US was just about enough to postpone this inflection point in the auto cycle last year but a mild, probably multi-year, drift off in auto sales can now be expected starting in 2019.

In mature Europe, the impact of Brexit on UK auto sales and sluggish economic conditions elsewhere means that the car sales recovery process already petered out last year and will be hurt by higher vehicle prices, as manufacturers struggle to achieve upcoming mandatory targets on average vehicle CO2 emissions.

Despite the noise from technical changes to emissions regulations that have distorted monthly selling rates dramatically since summer of 2018, it looks like the region has also run its course with most country markets already having recovered to or past pre-eurozone crisis levels. A few like Italy, Greece and Spain still have more room for recovery in the longer term, but this is likely to be a more gradual process and, in any event, not able to offset developments in northern European car markets.

Other key mature markets like Australia, Japan and South Korea have also reached the end of their improvement cycle. To be clear, the end of the recovery cycle in all these mature markets is not a surprise having been well anticipated by the industry. However, the fact that there is no additional impetus to auto sales implies more sensitivity to other market developments or a global economic slowdown.

China

China's light vehicle market has continued to slump well into 2019. The growth engine of world automotive demand for the last two decades unexpectedly shifted into reverse in the second half of 2018. Last year was always expected to be a slow period for autos given the end of the temporary car purchase tax breaks between 2015 and 2017. However, the severity and now longevity of the decline in sales has taken the entire automotive industry by surprise. In part, the high comparative base was an obvious issue, as was the friction with US trade policy, but it is also now clear that the market has downshifted. Light vehicle sales ended the year down by 3.5% in 2018.

A cluster of special situations

A cluster of special situations in several key countries has had an outsized negative impact on global auto sales. Most notable in this group is Iran and Turkey and to some extent Argentina. Combined, adverse conditions in these markets alone will have taken virtually 2m units or just over 2% off global auto demand by the end of 2019.

Although largely unrelated to each other, in each country auto demand has shown itself yet again more sensitive to remedial policies, interest rates and confidence than other sectors of the economy.

Desynchronised auto sales

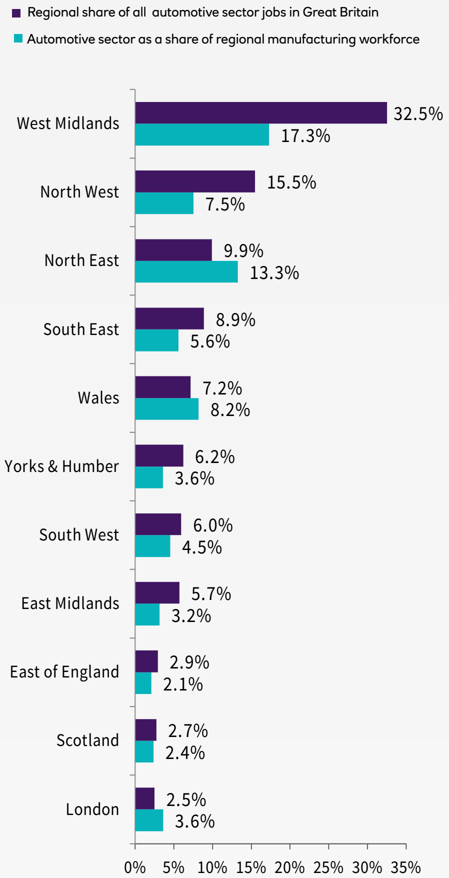
In summary, a stagnation in worldwide auto sales has preceded the projected slowdown of the global economy and IHS Markit anticipate a near two-year soft patch. Desynchronised auto sales may continue for a year or two after that with sales picking up in 2020/21 provided the economic slowdown is not more aggressive than current forecasts and China's car market doesn't suddenly decouple from its underlying drivers.

UK Automotive Sector Employment

West Midlands accounts for one-in-three manufacturing jobs in the automotive sector

Regional summary

Automotive sector manufacturing jobs*



Sources: NatWest, IHS Markit, ONS

* Automotive sector employment based on Business Register and Employment Survey 2017 employee counts in SIC 29 (manufacture of motor vehicles, trailers & parts) and SIC 2211 (manufacture of rubber tyres).

Automotive sector manufacturing jobs are heavily concentrated in several large UK production sites and the clusters of firms often located nearby in the supply chain. This is particularly evident in the West Midlands, which accounts for an estimated one-third of all automotive manufacturing jobs.

Business cycle trends signalled by the NatWest West Midlands PMI® surveys are often closely linked to the health of the automotive sector and its wider supply chain.

Automotive manufacturing is also of particular importance to growth prospects in the North East and Wales, given its outsized role in the regional workforce.

The deep footprint of the automotive manufacturing sector is most keenly felt in the West Midlands, with Jaguar Land Rover forming the backbone of staffing numbers in the industry. The region accounts an estimated 32.5% share of all automotive manufacturing jobs in the UK.

Direct employment in automotive production represents around one-sixth (17.3%) of the West Midlands manufacturing workforce, which is well in excess of the UK-wide figure (6.5%).

We estimate that there are nine local authorities in Great Britain where automotive manufacturing accounts for over 40% of total manufacturing employment, with three of these based in West Midlands region.

Of the 371 local authorities analysed by IHS Markit, perhaps not surprisingly the largest proportion of automotive manufacturing jobs is in Solihull (81.5%), which is home to Jaguar Land Rover's vehicle production plants in Solihull and Castle Bromwich.

The importance of the JLR supply chain is also evident in the share of automotive jobs in several other parts of the West Midlands, notably the Wolverhampton engine manufacturing plant in South Staffordshire.

Similarly, around two-thirds (67.8%) of manufacturing jobs within the local authority boundary of Stratford-upon-Avon are in the automotive sector, with the village of Gaydon home to JLR engineering centre and Aston Martin headquarters.

Outside of the West Midlands, volume manufacturers are behind the outsize role of automotive jobs in several other local authorities. This includes Oxford, home to the BMW Mini plant, where the automotive sector has an estimated 71.1% share of manufacturing jobs.

In the North West, Knowsley has around eight times the national proportion of automotive sector employees (50.3%). The local authority includes Jaguar Land Rover's Halewood plant.

The automotive sector accounts for a relatively large proportion of total manufacturing jobs in the North East (13.3%) and Wales (8.2%). Automotive jobs within the Sunderland local authority boundary contribute to around 59.5% of the manufacturing workforce, centred on Nissan's vehicle production plant.

The spatial distribution of automotive jobs provides a timely reminder that the footprint of large multinational manufacturers and health of the domestic supply chain are of critical importance to long-term regional growth prospects. Most notably, the performance of manufacturing clusters across West Midlands, North East and Wales is highly sensitive to the global automotive landscape as well as the outlook for the UK's trade relationships.

Ian Isaac

The downturn in automotive manufacturing is well-documented.

However, what we are experiencing in asset finance, whether this is through our funding of business customer fleets, unit stocking for dealers or support for our rental and contract hire customers, suggests we may in fact be experiencing the start of an evolution - driven by the electric vehicle.

We are teetering on the edge of the 'first to move' precipice. Ultimately, while we are seeing the demand and desire for electric vehicles begin to grow, consumers and businesses are hesitant to take the plunge and make the purchase. This stems from the speed at which the technology is improving – what may be the best-in-class electric vehicle today may very quickly be outdated in just a matter of months.

This hesitancy is contributing to the industry downturn highlighted by the media and backed up by statistics. However it won't last forever; in fact, people are already starting to make the leap. According to industry data from Next Green Car , the cumulative number of electric cars registered in the UK increased from 3,500 in 2013 to more than 214,000 by the end of May 2019.

There has also been a huge increase in the number of pure-electric and plug-in hybrid models available in the UK with many of the top manufacturers in the UK now offering a number of EVs as part of their model range. Figures from The Society of Motor Manufacturers and Traders (SMMT) each month show that electric car sales are increasing – from 500 registered per month in H1 2014, to an average of 5,000 per month during 2018. SMMT data also reveals, however, that electric vehicle sales only make up around 6% of the market.

So while many are making the leap, the "precipice" is proving more difficult for the majority to climb over. The remaining 94% isn't moving as quickly as analysts predicted and auto industry workers desire. An important factor to consider when looking at the evolution of the automotive sector is exactly who is buying cars. How people want to travel, particularly amongst young people will impact future car sales significantly.

In fact, our own data suggests that by 2030, a quarter of new car sales (25%) will be under the umbrella of "mobility as a service", i.e. ride-hailing, ride-sharing and subscription services. More emphasis will be on fleet providers than ever before and the desire of more environmentally-aware younger consumers will be for this fleet of vehicles to be electric. Our studies suggest that 69% of new car sales by 2030 will be of electric vehicles and alternative fuels.

The trick is for manufacturers to invest and to be ready as the demand materialises, and there are grounds for optimism, particularly when you look at our battery market. Britain builds the Nissan Leaf – the best-selling electric car in Europe – and Jaguar Land Rover invested in a battery site at Hams Hall in Q1 this year. Aston Martin has also revealed plans to produce the batteries for its Lagonda vehicles.

This is all happening against a backdrop of political support. The government's industrials strategy, set out in 2017, included £246m of funding to attract battery technology on our shores.

There have been a number of other high profile examples of the investment and support required to build the infrastructure needed to aide this evolution in the mobility market.

– Metroline received £50m to finance electric buses.

– Hitachi/ UKPM launched its own £18m EV commercial vehicle project.

– UK Government has launched a £400m private/ public Charging Infrastructure investment fund.

– L&G acquired a 13% stake in Pod Point via its Future Cities business.

– Zouk Capital has injected £25m into charging companies.

– UK Department for Business, Energy & Industrial Strategy (BEIS) released £33m for five projects related to low emission and electric vehicle projects.

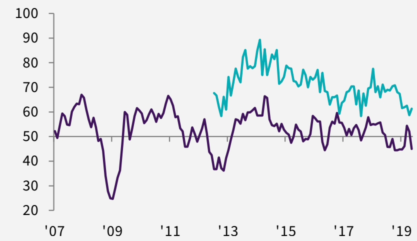
These are the very "green" shoots of a market moving in one direction – up. Our front-line feedback is that as the electric vehicle becomes more common place, and the young people of today become the vehicle purchasers of tomorrow, British manufacturers must ensure they are best placed to capitalise on the opportunity – then the 'downturn' could be just another learning curve in the automotive manufacturing sector's long-standing and prosperous position under-pinning the UK economy.

Ian Isaac,
Managing Director
Lombard

Appendix: UK Automotive PMI® indicators

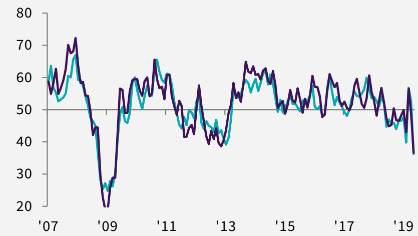
Output / Future Output

sa, >50 = growth since previous month / >50 = growth over next 12 months



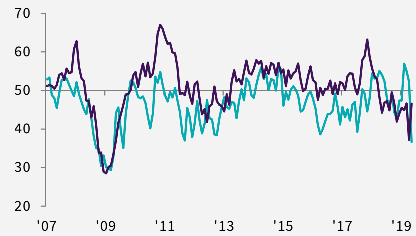
New Orders / New Export Orders

sa, >50 = growth since previous month



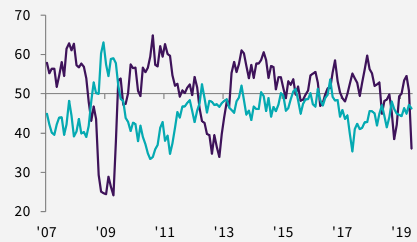
Employment / Backlogs of Work

sa, >50 = growth since previous month



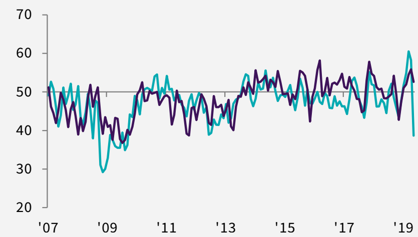
Quantity of Purchases / Suppliers' Delivery Times

sa, >50 = growth since previous month / faster times since previous month



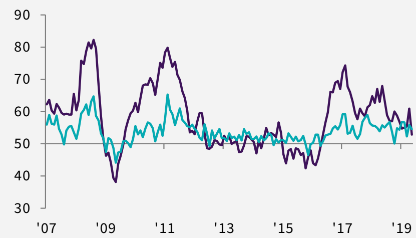
Stocks of Finished Goods / Stocks of Purchases

sa, >50 = growth since previous month



Input Prices / Output Prices

sa, >50 = inflation since previous month



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Methodology

IHS Markit's UK Automotive PMI® data is derived from survey responses provided by a representative sub-set of approximately 40 manufacturers within the UK Manufacturing PMI®. The survey panel includes manufacturers of motor vehicles, manufacturers of bodies (coachwork) for motor vehicles, manufacturers of trailers and semi-trailers and manufacturers of parts and accessories for motor vehicles. All figures are seasonally adjusted.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.