Covid-19 drives challenges for the Irish motor trade

While 2020 began with optimism for the Irish motor trade, there is no doubt that the Covid-19 outbreak and lockdown have put the brakes on the sector.

Stephen Healy, head of Motor Sector at Bank of Ireland, explained that a turnaround in the fortunes for the motor industry had been expected prior to the onset of the lockdown.

Following three consecutive years of declining new car sales, the sector had been hopeful for a year of stability in 2020. But because of Covid-19 that is not to be and like many business sectors the motor trade has a new set of challenges.

“The year began with a lot of reasons for optimism. The impact of Budget 2020 on the sector was relatively benign and the Government decided to introduce a new nitrogen oxide (NOx) tax that had a negligible impact on new car prices but would have had a significant impact on the cost of importing older, higher-polluting used cars.

“As a result of that used imports in the first two months of 2020 were down 26pc in January and 30pc in February and is supportive for sales of newer, cleaner, low emission vehicles in Ireland.

“But despite these green shoots, new car sales declined by around 5pc in the first two months of the year.”

Technological developments are also top of mind for potential car buyers. Diesel remained the most popular choice with Irish consumers, declining from a peak of around 75pc in 2015 and representing 46.6pc of all new cars sold in 2019. Combined sales of diesel and petrol new cars accounted for 87.2pc of new car sales in 2019.

Electric vehicle (EV) and hybrid sales accounted for 12.8pc of the market in 2019 and these are likely to grow further in 2020. EVs represented 2.9pc of new sales in Ireland compared to just 1.9pc of total EU registrations in 2019. In Ireland, just two vehicles – the Hyundai Kona and the Nissan Leaf – accounted for 63.1pc of EV sales in 2019, highlighting the limited choice of electric vehicles currently.

Impact of the lockdown on Irish motor trade

Prior to the Covid-19 outbreak and national lockdown, the industry had every reason to believe that business was on the up due to a new emissions tax that would reduce demand for older, higher polluting imports and a strong Irish economy.

However, while a recovery for the motor trade looked possible up until March, all of that changed as worsening news about the spread of Covid-19 created uncertainty among car buyers.

The first indicators of changing sentiment came from car rental companies who postponed and/or cancelled purchases of new vehicles for short term rentals over the St Patrick’s Day and Easter tourism seasons. This was critical because the car rental channel represents around 15pc of annual new car sales and 54pc are typically registered in Q1. The overall impact has been a 94.8pc collapse of new rental cars being purchased in March and down 66.3pc to 3,286 units for the year so far.

New passenger car sales fell by 20pc by the end of Q1 following a steep decline in sales in March by as much as 63pc. Historically, Q1 represents around 57pc of annual car sales. Due to the seasonality of car sales around 70pc of projected inventory was already in the market or sold by the time Ireland went into lockdown. In the UK, new car sales fell by 45pc in the month of March.

CO_2 emissions from new car sales in the first three months of 2020 fell 5pc to 108.0g/km due to increased sales of EV and hybrid vehicles with lower emissions. Compared with 2019, CO_2 emissions from new cars averaged 113.9g/km.

While EVs still account for a tiny fraction of the overall market with 3.3pc of new car registrations (1,667 units), sales were up 16.2pc in Q1 2020 on the previous year and motor dealers had been reporting EV supply shortages due to increased demand/production constraints.

Hybrid sales accounted for 14.4pc of new cars sold, heavily influenced by growth in Toyota. Around 73pc of all Hybrid sales are Toyota.

In response to imposed Government restrictions motor dealers had to temporarily close their doors to the public and any potential uptick in activity will depend on how the Covid-19 situation plays out in Ireland in the weeks and months ahead.

Preparing for a rebound

While the doors are temporarily closed, dealers are preparing for when they might open again. Many have retained an emergency operation to support customers in case of vehicle breakdowns and many dealers continue to take online sales enquiries from consumers as well as booking in service appointments for future dates.

One franchise also signalled hope for the future after hearing from aftersales colleagues in China who recorded a significant uptick in vehicle part sales, increasing to 70pc vs budget compared to operating at 20pc vs budget for the previous two months. It is understood that 93pc of the dealer network for this franchise has reopened in China.

Across Europe, automotive manufacturing remains closed, with the ACEA reporting that shutdowns have shortened supply by 1.5m vehicles.

European car manufacturers have indicated they will restart production in May, however, it is feared that supply of new cars will be impacted for the second traditional peak in Ireland commencing in July 2020 ("202" number plate). July and August combined represent 25pc of new car sales with the remainder of the year representing just 5pc.

Sales of new vehicles in Ireland are expected to decline substantially in Q2 which represents circa 13pc of the market. In the first 10 days of April, new car sales have declined 95pc and light commercial vehicle sales have declined 80pc in the month. The expected fall in sales in Q2, however, will provide supply of new vehicles for Q3 2020.

But, as Healy points out, there is much more to the motor trade than new car sales. Motor dealers also generate revenues from services and parts (aftersales) and used vehicles.

"Dealers are likely to focus their H2 2020 activities on generating income from channels like aftersales and used vehicles. In the meantime, the sector is considering actions to 'jump-start' the new car market when it reopens for business, with motor franchises likely to offer attractive consumer incentives.

Healy also cautioned of green-conscious consumer confusion around what engine type to go for next. "This is causing some consumers to postpone their decision to buy a new vehicle." His advice in this regard is to visit/contact your local motor dealer for advice. They will assess your current and future needs and advise which engine type best suits whether it is petrol, diesel, hybrid or electric.

So while 2020 began with positive green shoots, the potential impact of Coronavirus/Covid-19 has yet to be fully understood.

Healy suggests that dealers focused on the future will need to invest in their online presence along with enhanced health and safety practices (plexiglas installations, sanitation of vehicles, etc.). He also recommends they remain in touch with their customer base and keep them advised of post-Covid offers.

"Life will return to normal at some point, hopefully sooner rather than later. "Bank of Ireland is open for business and we support 12 car franchises in the motor sector – representing 40pc of new cars sold annually – we look forward to supporting the return to growth again.”

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The impact of Covid-19 is being felt across all business sectors. These impacts are leading to a number of financial needs for Bank of Ireland customers, including the provision of emergency working capital, prioritising loan decisions for impacted customers, payment flexibility on loan facilities, and the provision of trade finance and foreign currency products. Please refer to Bank of Ireland’s Covid-19 supports for business page.