

## Executive summary

Health concerns, near to the ground demand and government measures of social distancing have led the European tyre and rubber-automotive supplier industry to take decisive action.

Between March 6 and end-April, almost all tyre and other automotive suppliers in the rubber industry have announced the temporary closure of their European manufacturing facilities.

The impact goes beyond the manufacturing operation, R&D facilities, testing, homologation and other operational areas and retail networks, which are key to the industry's future, are affected.

Tyre manufacturers have all stopped their on-going capital spending projects.

## European Tyre sector

On 21 April, [ETRMA survey with its members] we estimate that **~ 56% of capacity is closed in Europe; 79% of the workforce is affected by the plant closures**; 15% of R&D staff is also affected and sent back home, under national security safety net<sup>1</sup>.

# Plants closed	Normal Plant Operation / Number of Plant Workers	Number of Workers Affected by Plant Closures	Lab / R&D Staff, under national security safety net	affected workers	Duration Affected days - on average
46	101706	76512	~15%	79	33

⇒ **Plant closures from 2 weeks to 3 months, starting from mid-March; closures extend to end-April; on average 33 days**

**With some business and customer needs now beginning to rise again, the companies made the decision to resume partial production in order to ensure adequate supply, as from April 14**

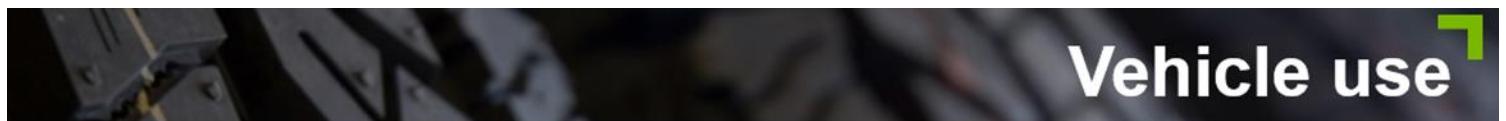
<sup>1</sup> To be noted that data are firstly affected by daily variations and also by difficulties in giving an harmonized image (workers shifts differences, % of reduced work calculations, number of days over shifts.. are all number affected by some non-harmonised approach, as well as national measures to support workload reduction are not the same for the different countries and even in the same country).

## DEMAND

The lockdowns are affecting both vehicles purchases, driving behavior and the number of miles driven<sup>2</sup>.

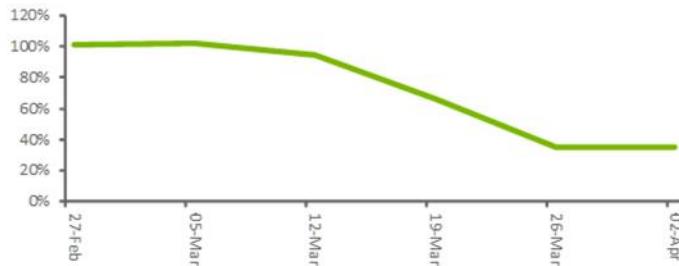
[From LMC, update April19]

In Europe further evidence is available of how this translates to changes in the number of journeys and therefore miles driven. In the UK, motor vehicle use by the end of March was 65% down on February's levels. In Italy, average motorway car numbers fell by over 50% in March compared to February, while truck numbers fell by 20%. The weekly data show that by the end of the month car traffic had fallen by 80%, while truck traffic was 50% lower. In France, on VINCI Autoroutes traffic levels fell by 16% in the first three weeks of March: -19.1% for light vehicles and -0.4% for heavy vehicles.



### UK motor vehicle use

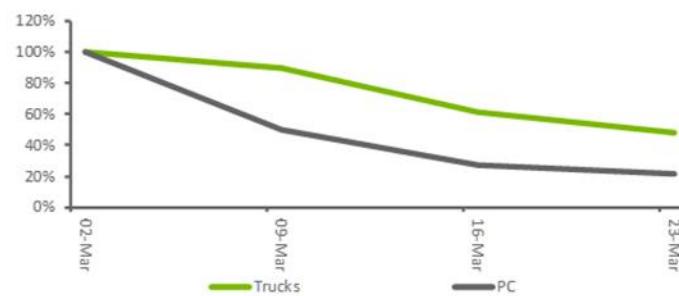
*Motor vehicle use (% compared to previous year)*



Source: UK, Department of Transport

### Italy motorway traffic

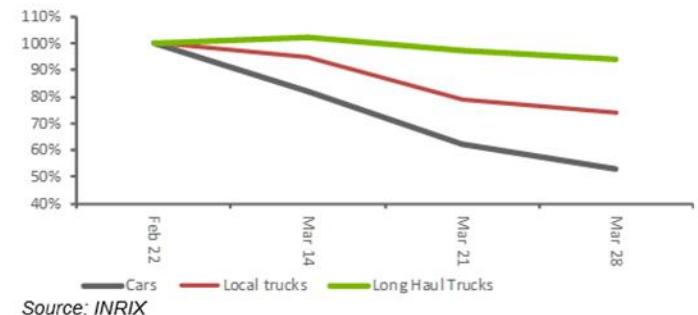
*Traffic (% Change, compared to Feb 2020)*



Source: ANAS, Archivio Osservatorio del traffico

### US journeys

*% Change, compared to Feb 22nd*



Source: INRIX

- An emerging theme from both Europe and the US is that the reduction in personal vehicle use has been greater than that of commercial vehicles as countries maintain a basic level of economic activity.
- In light of the change in outlook, we have further reduced our vehicle sales and production forecast. This points to a fall in light vehicle (LV) sales of 15% during 2020 and a 25% fall for MHCVs. Consequently, production falls and we have pencilled in a decline in LV output of 17% in Europe, 13% in the US and 12% in China. There is though scope for further downward revisions depending upon how the pandemic plays out.
- Lower congestion levels, journeys and miles driven all point towards lower replacement tyre sales. In China, in February LV replacement tyre sales fell by 60%, while MHCV tyre sales fell by 30% in line with the change in congestion levels.

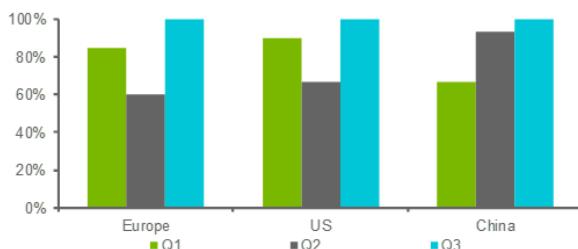
<sup>2</sup> <https://gftarticle.ft.com/gftarticle/actions/redeem/0a150b6f-cd48-4cdd-9352-cc99be26ad46>

## Replacement sales

- If we assume that Chinese congestion levels are back to 2019's levels by May, this points towards around 1 to 1.5 months of lost miles driven, which would then translate to a similar loss in replacement tyre sales.
- In Europe most lockdowns occurred during March and hence the peak of the reduction in monthly average traffic volumes is expected to be in April, as lockdowns will mostly continue for the whole month. It is not until May that we begin to see the beginnings of a recovery. The same is true of the US although the fall in April is not expected to be as great as it is anticipated to be in Europe.
- This suggests that in Europe and the US replacement tyre sales will be lower than a "normal" quarter of sales in the second quarter compared to the first quarter, although sales will be increasing as the quarter progresses. In China, the opposite is true.

### Reduction in replacement tyre sales

Change on same quarter in previous years



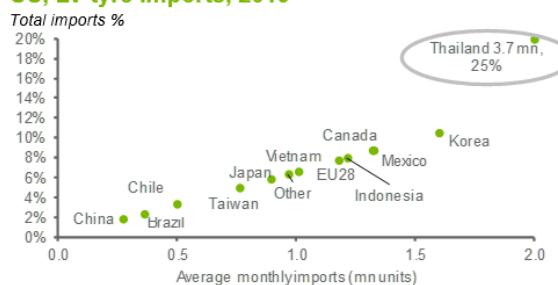
- As replacement tyre sales fall in Europe and North America, so the volume of imports will fall, as imports are predominately used for the replacement segment. In Europe for LV tyres this primarily affects exports from China (50% of imports), Korea (10%) and Turkey (9%).

- In the US, the distribution of imports is more evenly spread, with the most affected being Thailand (25% of LV tyre imports in 2019) and Korea (11%), followed by Canada and Mexico.

### Extra EU, LV tyre imports, 2019



### US, LV tyre imports, 2019



In '000 units*	1 <sup>st</sup> Q 2019	1 <sup>st</sup> Q 2020	Variation %	March 2019	March 2020 COVID IMPACT	Variation %
	55.083	48.049	-13%	21.407	15.739	-26%
	2.999	2.831	-6%	1.094	928	-15%
	358	312	-13%	125	107	-15%
	3.499	2.765	-21%	1.165	688	-41 %

(source: ETRMA)

\*Discrepancies with data previously published is due to periodic data corrections<sup>2</sup> Replacement Tyres: Passenger car, SUVs and light commercial vehicles

## OUTLOOK 2020

In light of the change in demand and sales, tyre production forecasts have been further reduced.

### Forecasted adjustment to 2020 production volumes, due to plunging demand:

- reduction of est. 25% on OE tyres volumes;
- reduction of est. 17% on passenger light truck tyres; and,
- reduction of est. 13% on commercial vehicle tyres

[based on ETRMA own survey with its members, on 7 April 2020]

## SUPPLY CHAINS

**Upstream:** The drop in demand is the major concern within the European tyre industry. As consequence, no major disruption of raw materials was reported ahead of the plant closures. The situation will have to be re-evaluated when the tyre plants open again!!

The **tyre manufacturers' own warehouses** are full of summer tyres produced Jan to March but which could not be transferred in the supply chain; there is seasonality in tyre sales, the summer tyres produced and in stock now would only be sold in spring 2021. Due to COVID-19, production programs in the different companies will have to be adapted to sales and to the stock levels.

**Downstream:** Warehouses at dealerships and wholesalers are full of winter tyres that did not sell in the mild winter, tying up working capital and storage space → **This combination of high stocks that cannot be sold until next October, with plunging demand will put great financial pressure on both retail outlets and smaller wholesalers.**

## INITIATIVES BY THE INDUSTRY TO SUPPORT COVID19

Several tyre manufacturers have rearranged production facilities to **supply medical equipment<sup>3</sup>** to manufacture urgently needed masks and serializable polycarbonate visors as well as medical hoses for health workers.

Companies have supported **suppliers further down the chain** to help maintain operations or share best practices on health & safety.

Tyre servicing centers have maintained their activities to **help governments in their efforts to fight the disease by providing tyres for ambulances, oxygen delivery vehicles and urgent logistics services, as well as meet the remaining commercial demand. There has been increased demand for regional-haul trucks to move goods from distribution centers to hospitals as well as supermarkets and other retail outlets.** At the same time, last-mile delivery activities have increased dramatically as residents confined to their homes have ordered deliveries of food, meals, medicines and other products.

## CIRCULAR ECONOMY AT RISK

**Worrying is the trend that, due to the extremely low prices of virgin raw materials and combined with drop in turnover, companies tend to opt for cheaper virgin raw materials instead of the circular recycled material.**

**Besides for the environment, this development is disastrous for recycling companies; they see up to 90% of their turnover dropping out and are forced to supply recycled material below their cost. This leads to acute sales and financial problems**

**For Europe to become more sustainable and to have a circular economy, it is precisely required to have an accelerated growth of the use of recycled materials. The recycling industry in eg. the Netherlands has asked the government to quickly take measures.**

Drop of tyre sales brings about reduction of fees creating financial strain on many Producer Responsibility Organizations.

Reduced collection rates, in some cases, up to 80%.

Closure of tyre fitter workshops in several markets, less impact on collectors and shredding plants, however some closed due to positive COVID-19 cases among their employees.

[Answers, received from Sweden, The Netherlands, Slovakia, Czech Republic, Italy, Spain and France]

---

<sup>3</sup> [Michelin](#) ; [Continental](#); [Bridgestone Europe](#)

## General Rubber Goods production

This sector is dominated by SMEs—many of them in great needs. They do need specific governmental support in financing (non-repayable loans, for example). The companies need specific announcements when they could count on a restart + asking OEMs to transfer due payments. Severe problems with their liquidity is expected.

- Lockdown : from mid-March through April
- Industrial activity fell sharply to almost 50% of its normal level with a strong sectoral heterogeneity; the markets supplied by general rubber goods producers include construction (building and infrastructure), pharmaceutical, mechanical engineering, automotive, household goods and healthcare.
- There is an expectation that new projects may be delayed so real economic impacts will come only Q4 or 2021 for this sector
- Employees – around 80 % - are right now sent into state-subsidised short-time employment. The basis therefore is an agreement between unions and management. This is the case in Germany, France and Spain, Italy, the Netherlands and Finland.
  - ⇒ Within 2 months, about 30% of the rubber companies expect to realise only 60% of their normal turnover, and a number of companies also expect to realise less than 50% of their normal turnover.
  - ⇒ The Rubber Industry makes a significant contribution to the necessary Corona measures; ranging from medical devices, protective clothing, shields and fences of all kinds.

### Extension of (March/April)-government support measures need to continue

15% of the companies have already applied for NOW and 35% will do so soon. Since the really big drop in production and turnover is only expected in a few months, an extension of NOW measures to support companies seems necessary; the current 3-month period is simply too short.

This picture also appears to be no different in the rubber industry than in the rubber industry.

## OUTLOOK 2020 for Germany

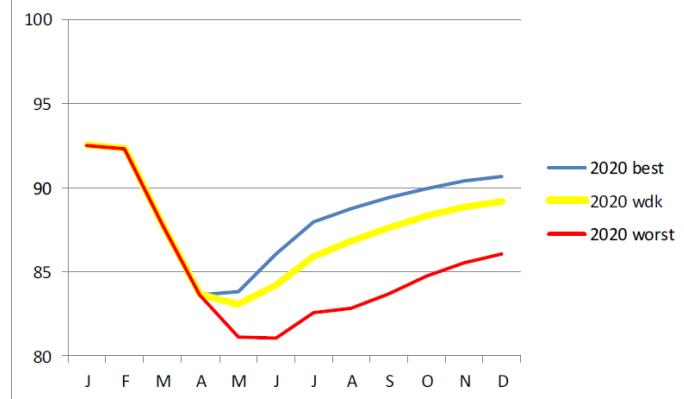
- GDP: -6 %
- Private Consumption: - 5 %
- Production German Vehicle Manufacturers: -17 %
- New registrations of cars in Germany: -20 %
- Other Industries: - 8 %
- Construction: + 0,5 %

The below scenarios have been developed by the German Rubber manufacturers Association (wdk), it is representative of the German Rubber industry

Sales German rubber industry in 1.000 €

		BEST	wdk	WORST
Germany	2019	7.030.002	7.030.002	7.030.002
	2020	6.279.198	6.210.034	6.106.375
	± %	-11	-12	-13
Abroad	2019	3.517.433	3.517.433	3.517.433
	2020	3.283.978	3.078.705	3.031.304
	± %	-7	-12	-14
Total	2019	10.547.435	10.547.435	10.547.435
	2020	9.563.176	9.288.740	9.137.679
	± %	-9	-12	-13

Cumulative sales as an index to the previous year

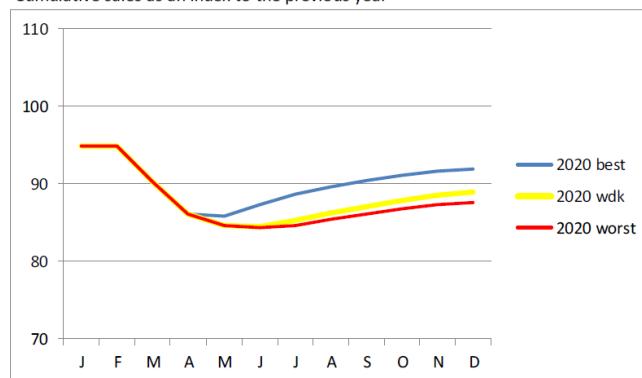


## GRG

Sales

Change to 2019		BEST	wdk	WORST
Germany	± %	-9,1	-9,9	-11,4
Abroad	± %	-6,7	-12,4	-13,7
Total	± %	-8,0	-11,0	-12,4

Cumulative sales as an index to the previous year



## About ETRMA

The European Tyre & Rubber Manufacturers Association (ETRMA) represent nearly 4.400 companies in the EU, directly employing about 370.000 people. The global sales of ETRMA's corporate members represent 70% of total global sales and 7 out of 10 world leaders in the sector are ETRMA Members. We have a strong manufacturing and research presence within the EU and candidate countries, with 93 tyre-producing plants and 17 R&D centres.

[www.etrma.org](http://www.etrma.org)