The New How: The road ahead for mobility and infrastructure

What changes has the mobility industry had to cope with since the advent of the public health crisis, and how will it recover? **Shoosmiths partner and head of mobility, Robin Webb**, speaks to a panel of leading industry experts to gather their views on the road ahead...

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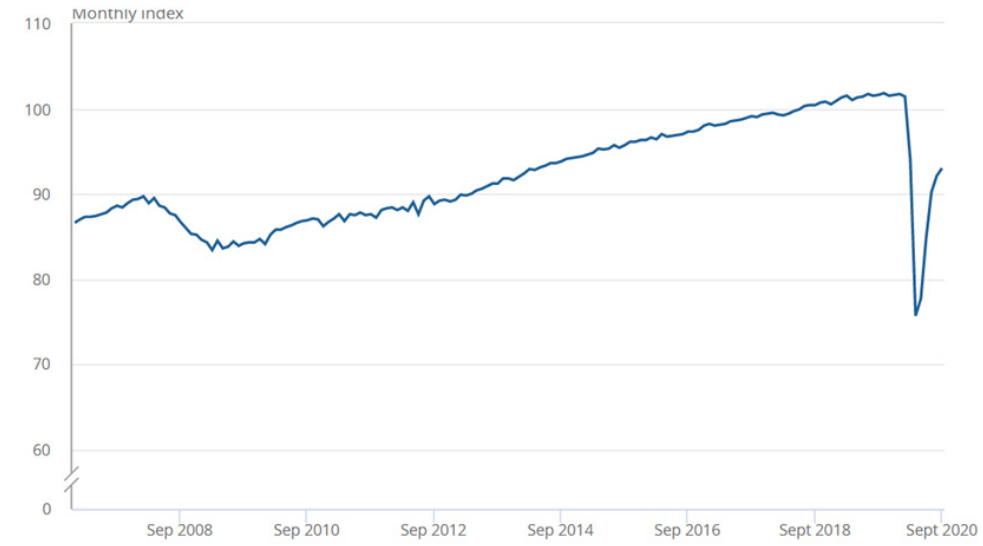
IN the last month, the UK has seen a second lockdown, a new elected leader in the USA, the prospect of a COVID-19 vaccine being rolled out before Christmas and news that the country is officially (well, technically at least!) out of recession – but the mobility sector has been hit hard.

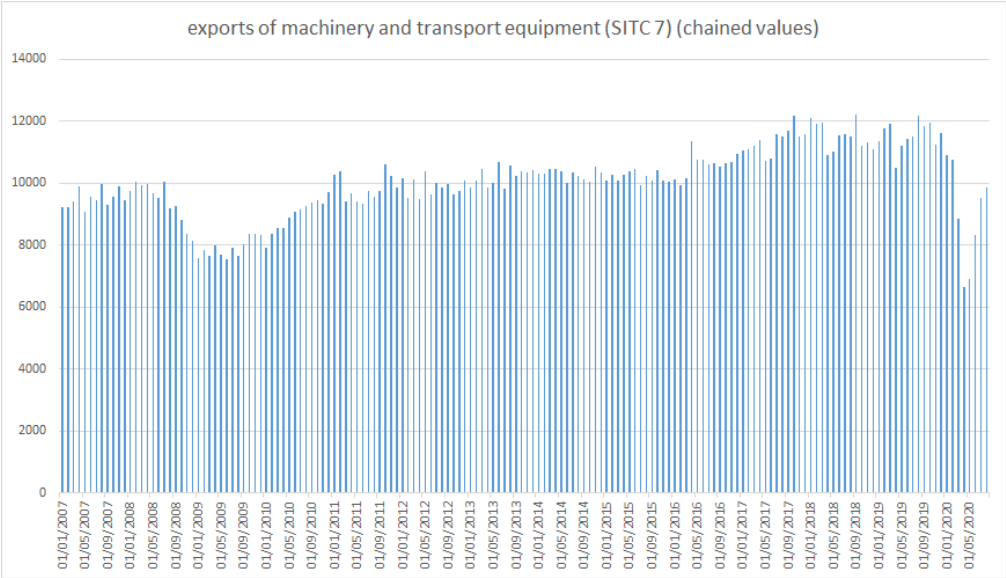
Kitty Ussher, UK macroeconomist, former treasury minister and now chief economic adviser at thinktank, Demos, explains the state of the nation: "Economic activity – what GDP measures - experienced quite a shallow 'u bend' recession in 2008-10, then, rising slowly but surely until this year when fell off a cliff in March, April."



Source: ONS

"The big question in economists' minds at the beginning of the original lockdown was – 'is this U-shaped or V-shaped recovery?', but it seems clear it is more like a 'U-bend' so the recovery is levelling out. The third quarter of this year was an enormous rebound - but not quite enough to take us back to where we started."

Giving a context as to the global picture, Ussher demonstrates what the macroeconomic impact the recent public health crisis, Brexit and other recent political and socio-economic issues have had: "We see a very similar picture across the rest of the major global economies – forecasts for world GDP for 2020 show a contraction a little less than the UK at around 5%, developing economies in Asia have the same picture but less dramatic and emerging markets mixed. But our main export partners have the same shape of graph that we have, and it is not surprising… vehicle exports from the UK, shows a very similar pattern."



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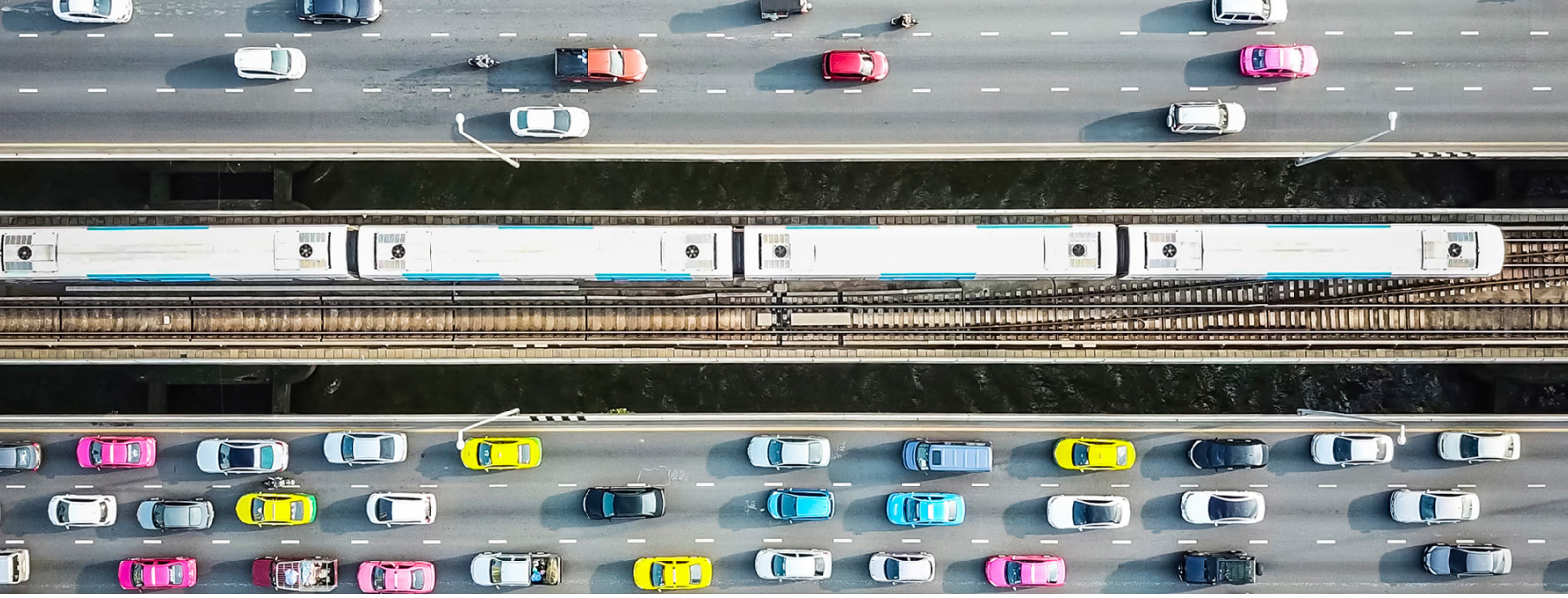

The dramatic effect the public health crisis has had on industries, and manufacturing in particular, has been catastrophic, with redundancies in the manufacturing and retail sectors experiencing worse than average redundancy rates, disproportionately affecting the UK car industry. With this in mind, is there any good news to share?

Ussher says: "What is surprising is quite how resilient the UK Labour market has been and so you can see that what that means is when the current crisis hit, we actually had a far greater proportion of the population in work that we've ever seen historically, and certainly far greater than we saw going into the [2008] financial crisis."

Ussher adds that there are indicators to show how consumers in the UK are feeling, using information gathered from recent surveys conducted by GFK.

"The first thing you can see from this chart that goes back to 2007 is that there was only a year and a half where people thought their financial and economic prospects were going to improve, and that was in the period running up to the EU referendum in 2016... we [also] had a moment of hope this year and then that collapsed back.

"The big question for consumers is, to what extent are these new developments on the horizon - some of them very positive - a vaccine, the end of instability in USA, perhaps we can feel cheerful at Christmas – how will they really push consumer confidence? We have seen a positive reaction in the markets, but that reaction only takes us back to the end of lockdown at the beginning of June.

"Then, of course, there is the uncertainty of whether Brexit will be seen as a triumph or a disaster when we get to next year and then there is always the prospect of lockdown number three."

The automotive picture for 2020

So, with all the events of 2020, what is the picture across the automotive industry, specifically? **Konstanze Scharring, Director of Policy at SMMT**, says: "When I look back at the last seven months it is really important to say that automotive – unlike many other manufacturing sectors, maybe apart from aviation – has really been suffering quite significantly from Covid-19 - as lockdown meant showrooms, as well as production, were closed two to three months roughly and some of the factories only opened back up in the summer.

"Lots of production was repurposed for PPE production but, all in all, this was meant to be a really good year [for new car sales] and when the lockdown started... if you look back at the spring, the figures were absolutely catastrophic. In April [the figures were] 97% down with only 4321 cars produced and we haven't had that since 1946. These are second world war output figures."

Scharring explains that on the production side figures are also down 35% and with a year focused on a new National Industrial Strategy it was hoped that another two million cars would be produced, but a figure of below one million for 2020 is a "big blow". She continued: "October was the last time we talked about new car registrations and the market was around 1.6% down – 140000 units - but it came off a very disappointing September and as you know, September is hugely important for the industry. We had a registration change, and this has been the lowest September since 1999 year-to-date. We lost around 30% of the market, 615000 units, which is not recoverable in the remaining time".

Peter Campbell, Global Motor Industry Correspondent at the FT says the global picture when it comes to recovery is incredibly mixed. While Chinese car sales are strong and above previous years, the USA represents a mixed picture, strong in some areas and weak in others. He says: "this is partly because they have had very different lockdowns in different parts of the US, but overall, the US market is still down quite a long way – around a fifth year-to-date.

"Western Europe is at the back of the pack, down about a third in the first nine months to September, because the whole of Q2 was disrupted with shutdowns, every car plant and dealership across Europe was closed... most auto executives think Britain and Europe will take the most time to recover of all the major global regions."

The challenges of brexit

Aside from the impact of Covid-19 on mobility, the industry will have to tackle challenges Brexit may bring. Are the panellists optimistic that a deal will be done in the remaining days?

Campbell explains that the effects of a no-deal Brexit would be "pretty terrible" especially from the production side of automotive manufacturing. He says: "many of the car plants are based in Britain to sell to Europe and are entirely reliant on European car sales, and entirely dependent on European parts that come in. Nissan, Toyota, Peugeot, Vauxhall are incredibly dependent on Europe so losing that access or being penalised for that access – many manufacturers say that is a problem that actually threatens the existence of those plants remaining in the UK in the future."

Campbell also suggests that little comfort or any meaningful positive change could be found by the automotive industry in the case of a US-UK trade deal, given the fact that very few British built cars make their way to the USA and it could result in more USA-built cars making their way onto UK shores.

Representing SMMT, Scharring says in negotiating the deal with the EU, key priorities should be focused upon tariff-free and quote-free trade, which is 'critical' from a strategic perspective.

Economist, Ussher, adds that she is "cautiously optimistic", as "both sides have a clear interest in sorting this out". She adds that once a deal is agreed, there may be a sense of relief which may inspire an element of confidence much like when the EU withdrawal bill was passed.

Recovery

With a focus on recovery, how much of a role should the government play in that recovery, and what is the right balance between regulation, facilitation and a free market?

Kevin Chowings, managing director of NatWest's future of mobility group, says: "The government to date has been pretty interventionist and you can tell all of this from the bounce back loans... I think this is going to have to continue for an extended period.

"While it is good and pretty well organised in the way the government has supported the dislocation... what is the exit plan for that debt?"

Chowings advises that how banks and government are going to help companies going forward needs to be "played through", otherwise growth and inter-transition of decarbonisation is going to be "really challenging". He adds that the overall vision and coordination of how decarbonisation and the development of this sector for the UK economy is to a large extent, "missing".

SMMT's Scharring says the furlough system was the system to benefit the sector the most throughout the Covid crisis. However, many mobility companies were not eligible for other elements of government intervention, such as loans. She says: "We don't have an autumn budget this year but we need to use the comprehensive spending review to get us onto a trajectory for recovery... and need cooperation, collaboration and co-funding [with government] in many cases."

Scharring adds that other countries have already put together sector stimulus packages, and the UK should be no different – government could also help the sector by looking into support surrounding business rates and energy costs.

Electric vehicles

While the industry has almost ground to a halt at certain points of 2020, fulfilling the decarbonisation agenda still means the same emphasis needs to be placed on stimulating the EV market. Do the panellists think a scrappage scheme could be a good way of kickstarting the EV market in particular?

The FT's Campbell thinks local regulations drive uptake of EVs more than government incentives. "The way in which cars are financed these days has changed, so many people "own" new cars through PCP finance schemes... in terms of pushing people towards electric vehicles and low emission vehicles, local rules do that a lot more", Peter uses London and Bristol as examples of areas with effective local rules which have seen a higher number of EVs.

According to Scharring, affordability is still the number one issue. She advocates that more competitive and longer-term incentives than scrappage schemes should be introduced to draw in private consumers. Campbell responds to say that once normal car buyers are able to just get into them and see the pro's of having electric vehicles – how they drive and how quiet they are among many other redeeming features, "they will never want to go back". He does, however, say that there is an element of confusion among consumers regarding different types of EVs.

In terms of a wider adoption of EVs, NatWest's Chowings notes that with more research and development around batteries we could see a lower price differential making EVs more accessible. He says however that people also have anxieties around the 'range' of EVs, but more so of late, the charging aspects surrounding them, which "don't look well-coordinated right now". Chowings also states the importance of consumers living in rural areas to have a good charging infrastructure to encourage EV sales.

On infrastructure, Ussher says: "We now have a government that is 'pro' big scale investment and has been blown off track by the need to support people's salaries this year, but interest rates are still really low so there is a good argument that if you're going to spend government money, now is a really good time to do so... there's a very strong fiscal case for investment.

But do panellists think that there is a risk of manufacturers putting all of their eggs in one basket with EVs? Campbell says that a lot of car manufacturers are working smartly by sharing technologies and working on joint development, such as BMW and JLR. "There is a lot of consolidation in the industry to try and stop OEMs duplicating investment on this – but equally all governments want to decarbonise huge parts of their economies by 2050. We have to do this for climate change and it is a fundamentally good thing for the industry to do... once cars do go fully decarbonised a huge number of them are going to be battery electric but there are investment concerns around it."

Permanent damage?

Has the public health crisis shifted consumer demand for cars permanently? Scharring commented that the global trading position has made 2020 a really unusual year in terms of identifying trends. Scharring went on to reference the growth in EV cars (plug-in hybrid and battery electric) this year – "it will be interesting to see if this sustains".

Campbell says that working from home could change commuting patterns and people's relationship with public transport. "People will either want fewer cars because they don't need to get around so much, or want their cars more because they don't want to get on public transport." Campbell explains that we're seeing a huge rise in people searching for used cars more than ten years old, and a general increased trend in car ownership is being observed globally.

To conclude, panellists think the economy is still in a fragile state and what comes next can be difficult to predict, but there are glimmers of hope particularly with electric vehicles sales. With effective collaboration and cooperation between mobility brands and with the UK Government, the mobility sector can meet challenges and move forward – but the pace of moving forward is yet to be determined.

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