Coronavirus Update

Kristin Dziczek – Vice President
6 March 2020
Agenda

Background on China Trade & Market Trends
Coronavirus Timeline
Likely Disruptions
Guest Speaker Introduction
Q & A
Takeaways:

- A view of the Chinese auto industry right now
- An overview of automotive sourcing trends in China—including diversification strategies
- Insights into the layered impacts of a slowing China market, the state of U.S.-China trade relations, & coronavirus
- Impact of tooling sourced from China & other impacted areas on North American product launches
- The potential for North American production disruption & financial impacts of the coronavirus outbreak
China Passenger Vehicle Sales Annual Growth Rate
2005 – 2019

Source: Marklines
Labor Costs are Rising Faster in China than Mexico
Hourly Manufacturing Labor Costs, USD 2016-2019

Source: Statista
U.S.-China Vehicle Imports & Exports
2014-2019, USD Billions

Source: U.S. International Trade Administration
U.S.-China Auto Parts Imports & Exports
2014-2019, USD Billions

Source: U.S. Department of Commerce, Bureau of the Census, Domestic Exports and Customs Import Value
U.S. China Trade War

US-China Trade War Tariffs: An Up-to-Date Chart

Source: Chad Bown & Melina Kolb, Peterson Institute for International Economics
Tariff Impacts on Chinese and the Rest of World Auto Imports 2018 vs. 2019

Source: CAR Research based on the trade data retrieved from USITC DataWeb. The data is consist of six-digit HTS automotive goods in three tranches effected on: July 6, 2018; August 23, 2018; and September 24, 2018.

% Change in Imports from China, 2018 – 2019

% Change in Imports from ROW, 2018 – 2019

Categories > 1% of total, covering 98% of vehicles and 95% of parts imports
China Exports of Automotive Parts*
2018 (USD Million)

*HS 870600 – HS 870899; Source: UN Comtrade Database
U.S. Motor Vehicle Parts Imports – Top 20 Categories
2019 (USD Billion)

These categories represent 77% of total motor vehicle parts imports USD 115.1

Source: USITC DataWeb
Coronavirus – Timeline & Key Developments

China – Coronavirus Outbreak

January 20 – First reported case by China National Health Commission

January 23 – Wuhan City closed

January 24 – Hubei Province traffic restrictions imposed

January 31 – February 12 travel restrictions imposed by select cities across China

Auto Production

January 31 – Crisis delayed
National return to work until February 3

February 3 – National return to work further delayed until February 9 (1wk) @ 20 Province Shutdown

February 10 – Partial production resumes, e.g. ‘ghost shifts’

February 7 – Hyundai idles plants in South Korea

February 10 – Nissan idles plant in Japan

Govt officials unofficial ‘guidance’ for March 10+ production restarts

Supply Chain Disruption

Hyundai/Kia (South Korea) – wiring harnesses

GM (North America) – appliques

Honda (Japan) – brakes and interior trim

Wuhan City – turbos, IP’s, brakes, EPS, seat frames

Hubei Province – brakes, HVAC, steering, exhaust manifolds, power electronics

North America – Impact

GM announces plans to airship parts for NA light trucks

Limited thus far but FCA and GM warning about potential March impact

ROW – Impact
SARS vs. Corona Virus: “History Rhymes but doesn’t Repeat Itself.”
-Barton Biggs, Morgan Stanley Chief Economist (former)

**SARS**
- Major but short-lived impact on China economy overall, e.g. $1.7 trillion GDP, est. 0.5-1.0bp growth impact (various est.)
- ~800 deaths in at least 17 countries

**Volume Impact**
- 2.94M units vehicle production (2002)
- Impacted 1H2003, but rebounded in 2H2003

**Comparison**
- China – 6th largest economy
- Comparatively closed automotive market
- Major impact locally, but somewhat muted globally

**Coronavirus**
- Growing impact on China economy overall and vehicle production, e.g. $14 trillion GDP, with est. growth of 5.6% yr/yr (revised from 6.0% by IMF)

**Volume Impact**
- 24.85M units vehicle production (2019), largest market in the world

**Comparison**
- China is now 2nd largest economy behind United States
- Open automotive market (compared to 2003)
- GM, VW, Nissan and other automakers reliant on sales and profit contribution

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SARS vs. Corona Virus:
“History Rhymes but doesn’t Repeat Itself.”
-Barton Biggs, Morgan Stanley Chief Economist (former)
Coronavirus (COVID-19) Update
Threat to U.S. Production & U.S. Firms

- Biggest threats are supply disruptions & financial
- Imports from China & ROW impacted
- GM has largest China exposure of D3 automakers

Map Source: WHO as of 3/5/2020
Coronavirus (COVID-19) Update
Timing of Impacts

- China → North America = 30-60 days shipping
- North American suppliers keep 2+ months of parts inventory sourced from Asia
- Timing with Lunar New Year means 1 week downtime was planned
- Many Chinese automotive parts come to U.S. in parts & components manufactured elsewhere
- Inventory and supplier tiers may mitigate supply chain disruption or delay visibility of supply chain problems
Speakers

Kristin Dziczek  
Vice President

Michael Dunne  
CEO, ZoZo Go

Paul Stepanek  
Owner
Growing automotive companies in Asia

1987: Sichuan
1990: Thailand
1993: Bangkok/Beijing
2006: Shanghai
2011: Singapore
2013: Indonesia
2016: ZoZo Go

ZoZo Go
A Dunne Automotive Company

Strategic Research
Partnerships
zozogo.com
Investment Advisory
Coronavirus Quotas
Buying Masks and Alcohol Sanitizers
Beijing
Tens of Millions On The Move

Chengdu Airport
PAY ATTENTION TO THE THREE "NO'S"

No making up rumors.

No believing rumors.

No spreading rumors.

“It's the biggest way to help in the battle against spread of the coronavirus.”

English translation by ZoZo Go
Monday March 2\textsuperscript{nd}, Shanghai

Blue sky (for now)

Full traffic

From Rhea Chen, CMD
HR Leader
Passenger rail trips are up 60,000 /day since Feb. 20th.

Drivers have special permits to cross provinces.

Seaports are open and shipping internationally.

Six million are back to work in Guangdong (about 1/3 of normal)

85% of China’s Starbucks 4,292 stores are open

Wuhan has a surplus of hospital beds.
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Thank you