



Market Outlook

Brandon Mason

September 17, 2020



Powering Business Worldwide

© 2020 Eaton. All rights reserved.

Global

Global Outlook

Navigating the “new normal”

- The impact of COVID-19 has been devastating on an economic and overall societal level.
- While some markets are beginning to stabilize, others are still experiencing significant hardship.
- A number of known and unknown headwinds will exist for at least the next 6-12 months.
- While some level of normalcy is expected to return, other elements of our society and our industry will fundamentally change.

Global Outlook

Navigating the “new normal”

In the news...

- **US:** August sales down 20%, market showing mixed signs of stabilization
- **SA:** Brazil August registrations decline 25%, full year decline of 30% forecasted
- **EU:** German Impact of VAT cut short lived; August registrations down 20%
- **China:** New vehicle sales up 11% in August, market rebound in full effect

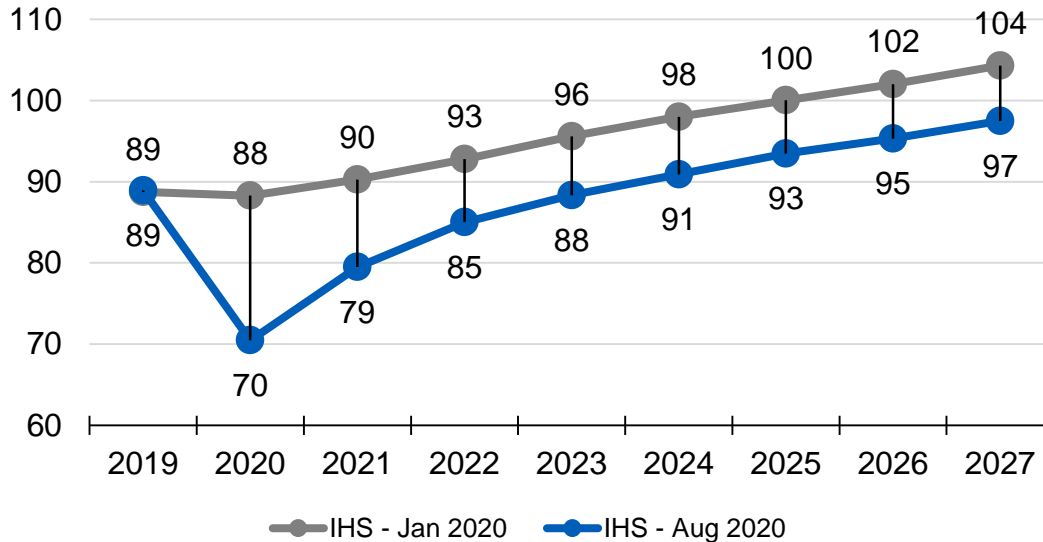


Global Outlook

A permanent downward shift

Global Light Vehicle Production

2019 – 2027 (millions)



Source: IHS August 2020 Forecast Release

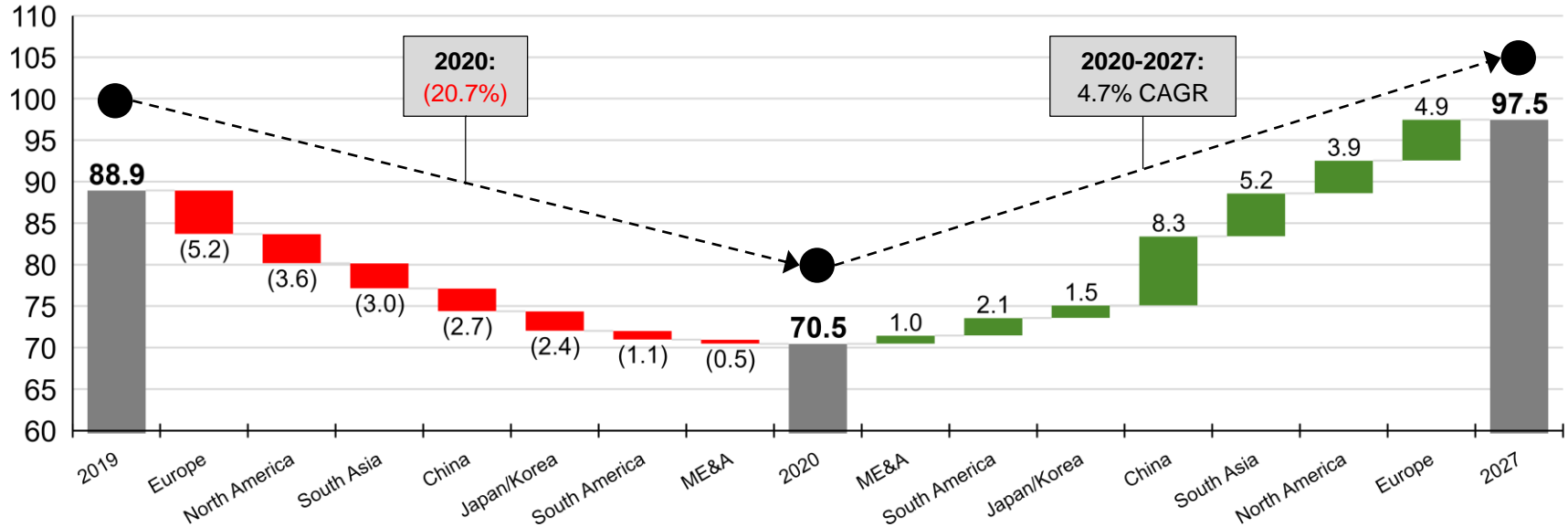
Summary

- Global light vehicle production expected to decline ~20% in 2020.
- Global production not expected to recover to pre-pandemic levels until 2024.
- The impact of the pandemic will be long lasting, creating a forecasted reduction of 70m light vehicles from 2020 – 2027, which represents a 9% decline during the same period.

Global Outlook

Not all markets are expected to recover equally

Global Light Vehicle Assembly Change by Region
2019 – 2027 (millions)



Source: IHS August 2020 Forecast Release

North America

US Market Outlook

Industry dealing with unprecedented headwinds

Automotive News

Inventory, staffing issues linger after rough spring



Automakers Shut North American Plants Over Coronavirus Fears

The Washington Post

U.S. unemployment rate soars to 14.7 percent, the worst since the Depression era

The Detroit News

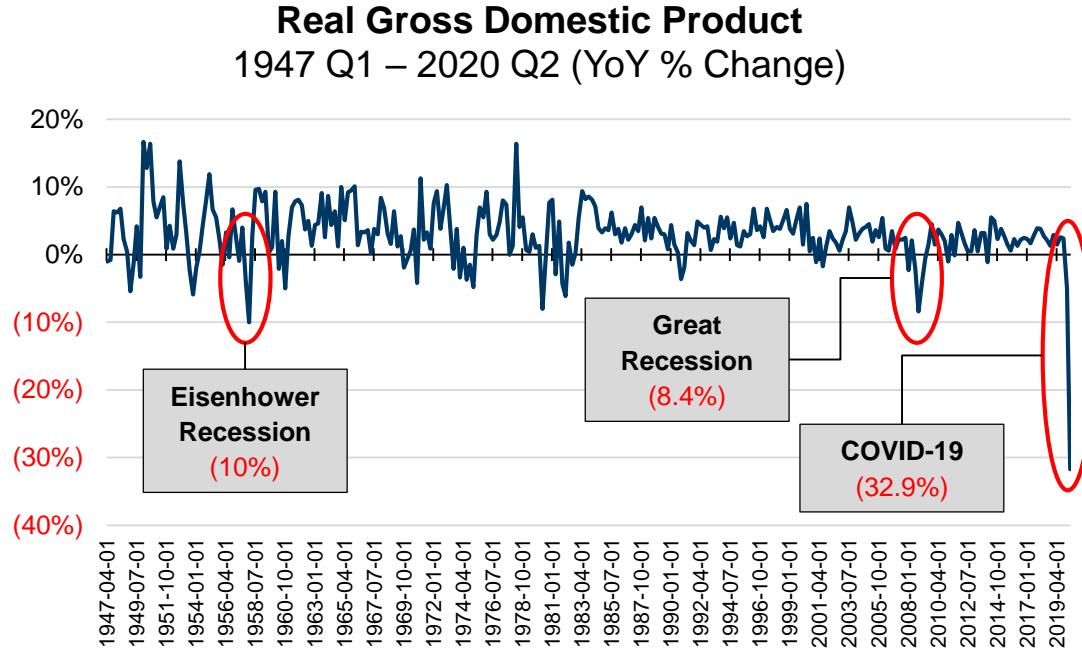
Auto industry recovery from COVID-19 could take years, signaling slow climb back



The coronavirus threatens auto industry recovery as cases rise and more employees miss work

US Market Outlook

Some economic indicators appear to tell a sobering tale...



Summary

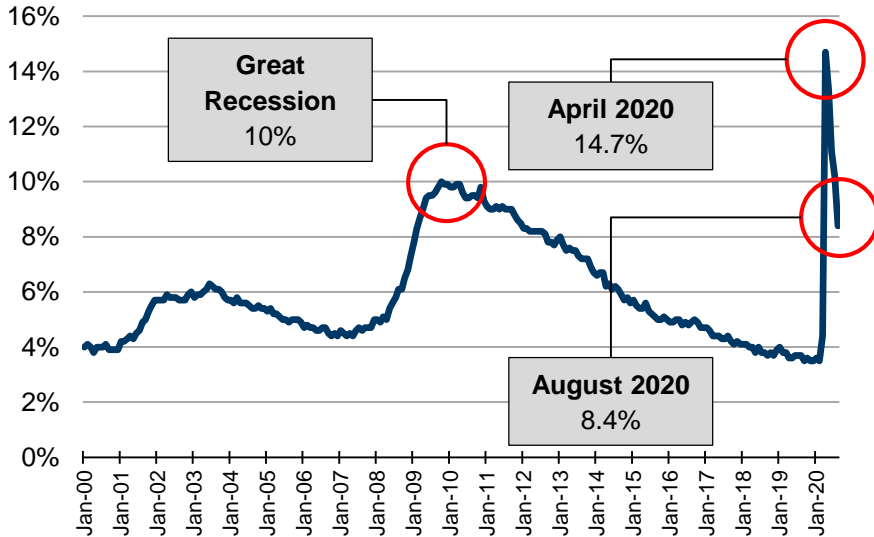
- GDP shrank by 9.5% from April to June; largest drop in history. 2020 Q2 annualized decline of 32.9% also largest in history.
- US GDP Outlook (IHS):
 - **Q3: (5.3%)**
 - **Q4: (4.8%)**
 - **FY: (4.8%)**
 - **2021: 3.1%**
 - **2022: 4.1%**

Source: US Bureau of Economic Analysis, Federal Reserve Bank of St. Louis FRED, IHS Markit

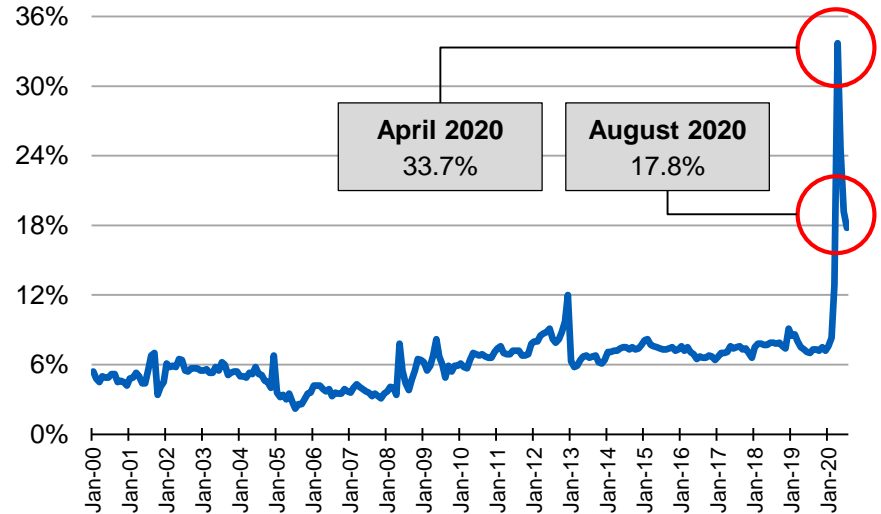
US Market Outlook

Some economic indicators appear to tell a sobering tale...

Unemployment Rate Jan 2000 – Aug 2020



Personal Savings Rate Jan 2000 – Jul 2020

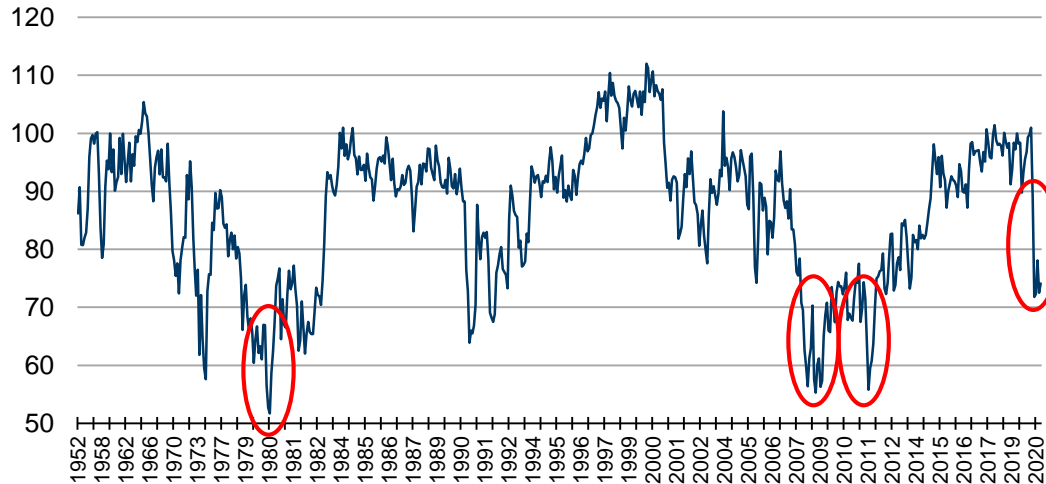


Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis

US Market Outlook

...while others give reason for cautious optimism

UofM Consumer Sentiment Index
Nov 1952 – Aug 2020



Source: University of Michigan (sca.irs.umich.edu)



Summary

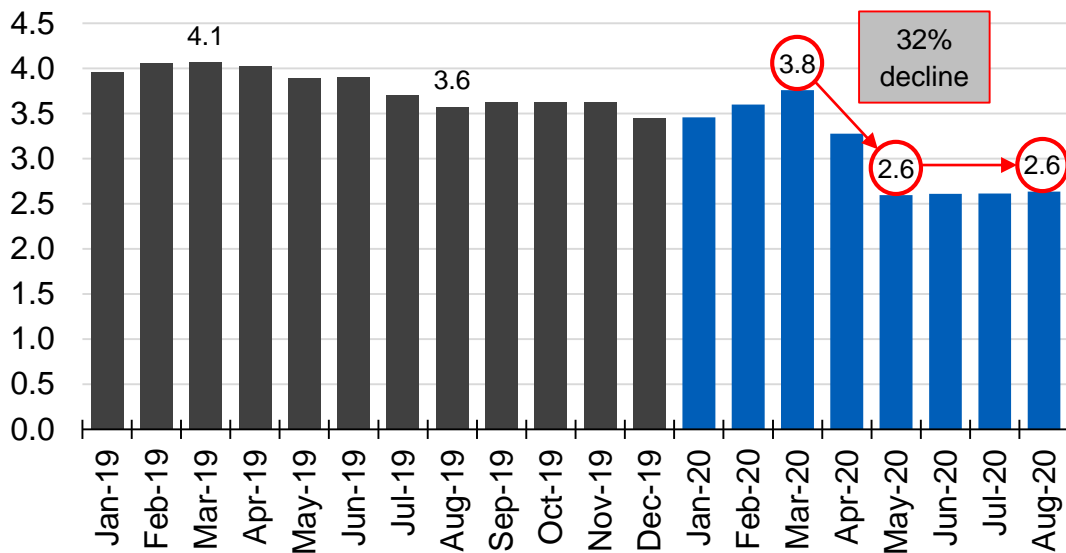
- Index assesses consumer confidence in their personal financial situation, as well as their near and long-term outlook of the economy.
- While uncertainty remains, sentiment seems to have stabilized for the time being, and has come nowhere near the levels seen during the Great Recession.

US Market Outlook

Inventory expected to recover at a slow pace

US Monthly Light Vehicle Inventory

Jan 2019 – Aug 2020 (millions)



Source: IHS August 2020 Forecast Release



Summary

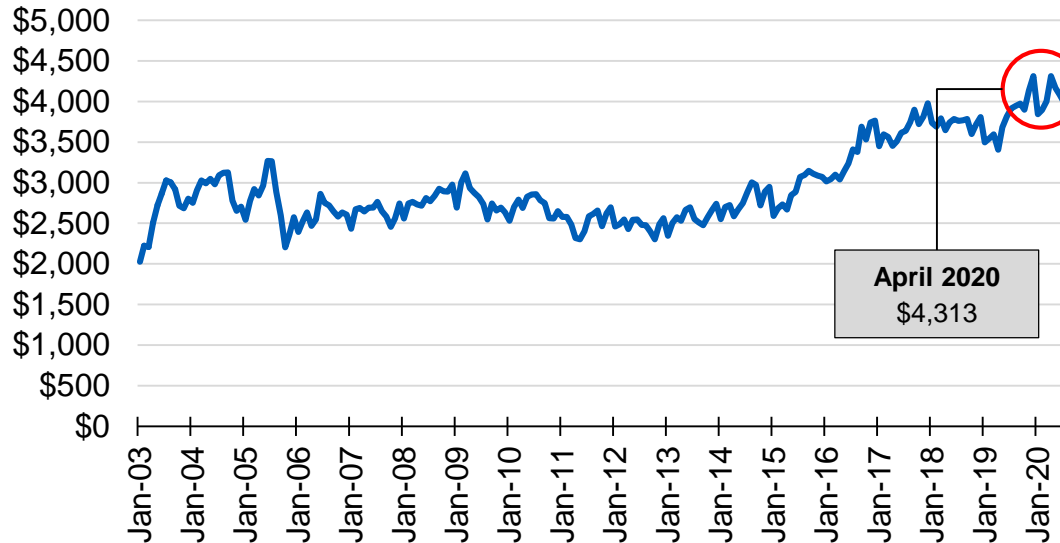
- Plant shutdowns from Mar – May created a significant reduction in inventory levels.
- Pent up / continued strong demand has also not allowed for replenishment, especially for high demand products.
- While production has since ramped back up, full pre-Covid capacity isn't expected before 2021...risk of supply chain, safety issues persist.

US Market Outlook

Auto finance & Incentives

US Light Vehicle Incentives

Jan 2003 – Aug 2020



Source: Autodata Corp.

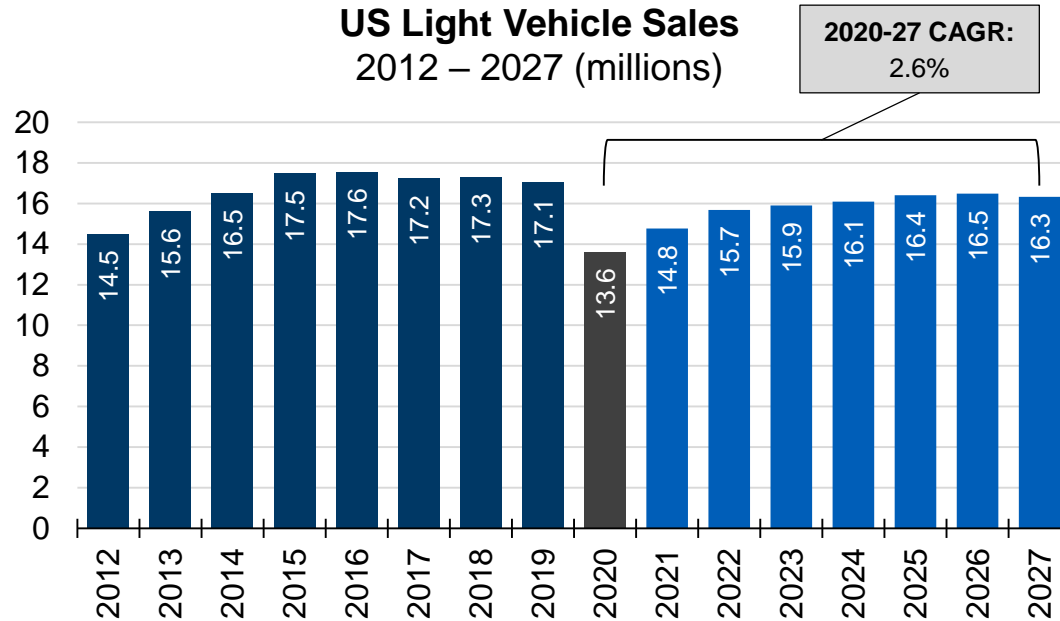


Summary

- After steadily raising rates since 2016, the Fed was forced to slash the Effective Fed Fund Rate, which has essentially been at 0% since March.
- Auto loan rates have come down in parallel. Average prime rate is currently 4.2%, down from 5.2% a year ago.
- Low inventory has caused a leveling off of incentives in recent months.

US Market Outlook

Sales continuing to outperform expectations



Source: IHS August 2020 Forecast Release, Ward's Automotive Reports



Summary

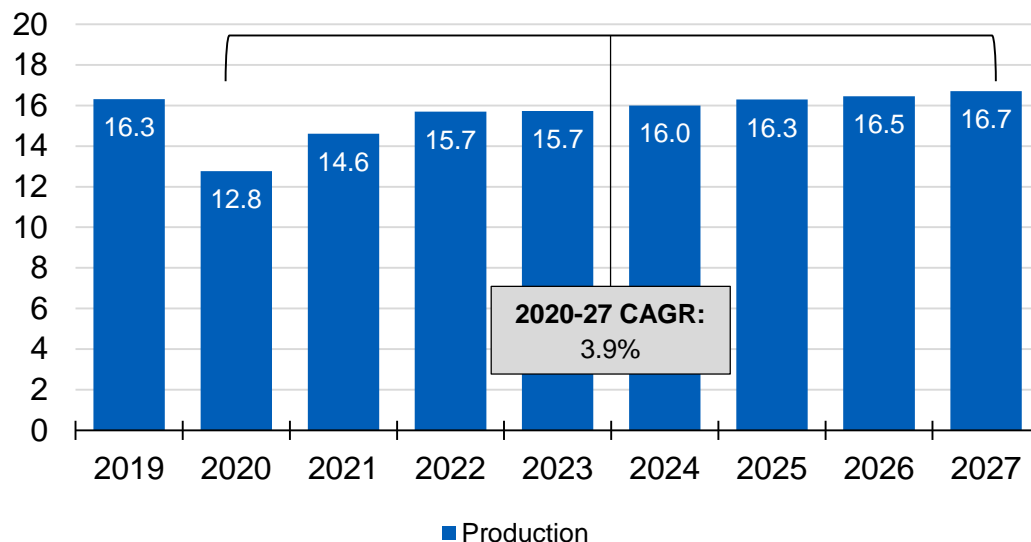
- Sales have continued to outperform expectations since the pandemic began.
- July sales of 1.2M (14.6M SAAR); August sales of 1.3M (15.2M SAAR).
- Full year sales of 13.5-14.0M expected (-20%), with gradual recovery thereafter.
- Changing market dynamics will keep sales from reaching pre-Covid levels.

North America Market Outlook

Significant challenges to return to Pre-COVID capacity in the near term

North America Light Vehicle Production

2019 – 2027 (millions)



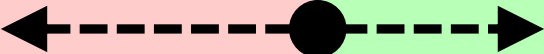
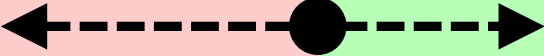


Source: IHS August 2020 Forecast Release

Summary

- Light vehicle production expected to decline ~22% in 2020, and improving 15% year-over-year in 2021.
- Product localization, increase of non-NAFTA exports, inventory replenishment key drivers of topline recovery in the near term.
- Beyond 2021, mature market status and slow growth will result in region not reaching pre-pandemic levels until 2025.

Looking Ahead

Where does the industry go from here?

Trend	Potential Investment Impact vs. Pre-Covid Market (5 year horizon)	Industry Implications
Connected		Creating smarter, more connected vehicles will remain a priority for the industry, as consumer demand increases along with safety regulations.
Autonomous		Some companies will remain "all in", others will be limited in their investment ability. Further acceleration of strategic partnerships, consolidation likely.
Shared		Delayed adoption of shared mobility, aversion to public transit could increase global light vehicle demand as personal ownership remains desirable.
Electric		Accelerated shift away from ICE. Market becoming more mature...fewer opportunities to bid on programs, bigger wins/losses. Regulatory driven.

Leveraging Industry 4.0

How Eaton is utilizing technology to navigate the COVID-19 pandemic

“By leveraging augmented reality, we are able to continue to support our operations remotely and continue the development of new products, ensuring our customer deadlines are met despite the global challenges we are all facing”

- João Faria, President, Vehicle Group

Teams Connectivity

Quick & interactive connection
for global cooperation



AR Remote Assistance

Robots & Humans

Working together to produce
our products



Collaborative Robots

Material Handling

Keep our team focused on
value added services

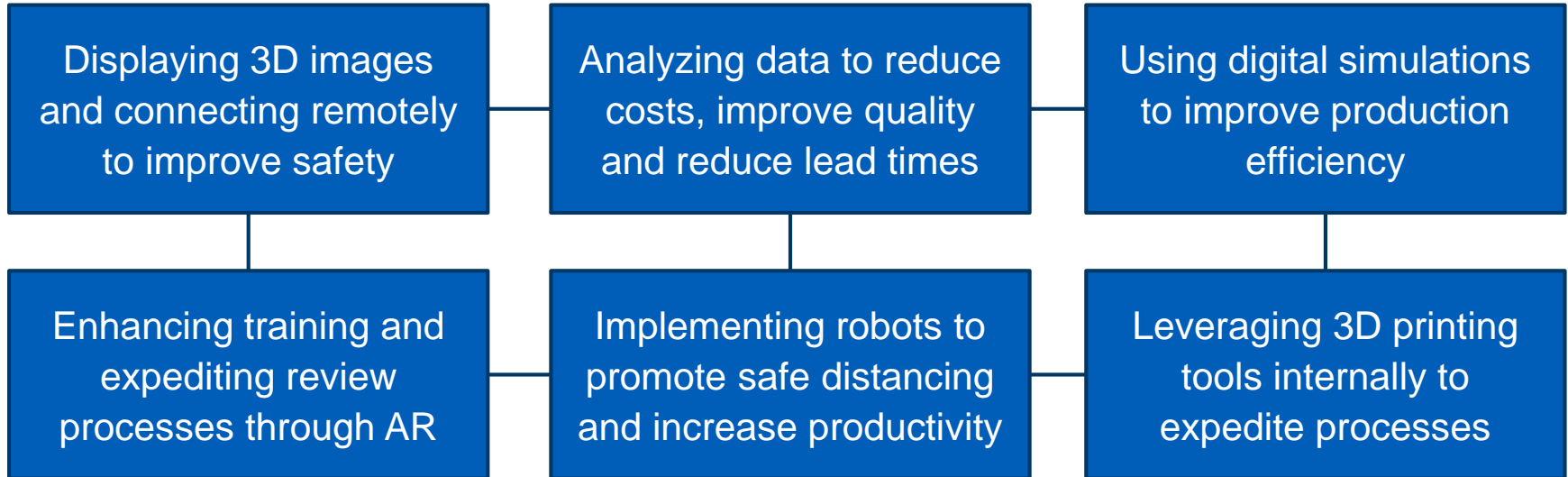


Autonomous AGV

Leveraging Industry 4.0

How Eaton is utilizing technology to navigate the COVID-19 pandemic

Examples of Industry 4.0 Technologies in Use...



EATON

Powering Business Worldwide