

# VDA China Survey Report: Impact of COVID-19 on VDA Members in China

May 2022 | Beijing



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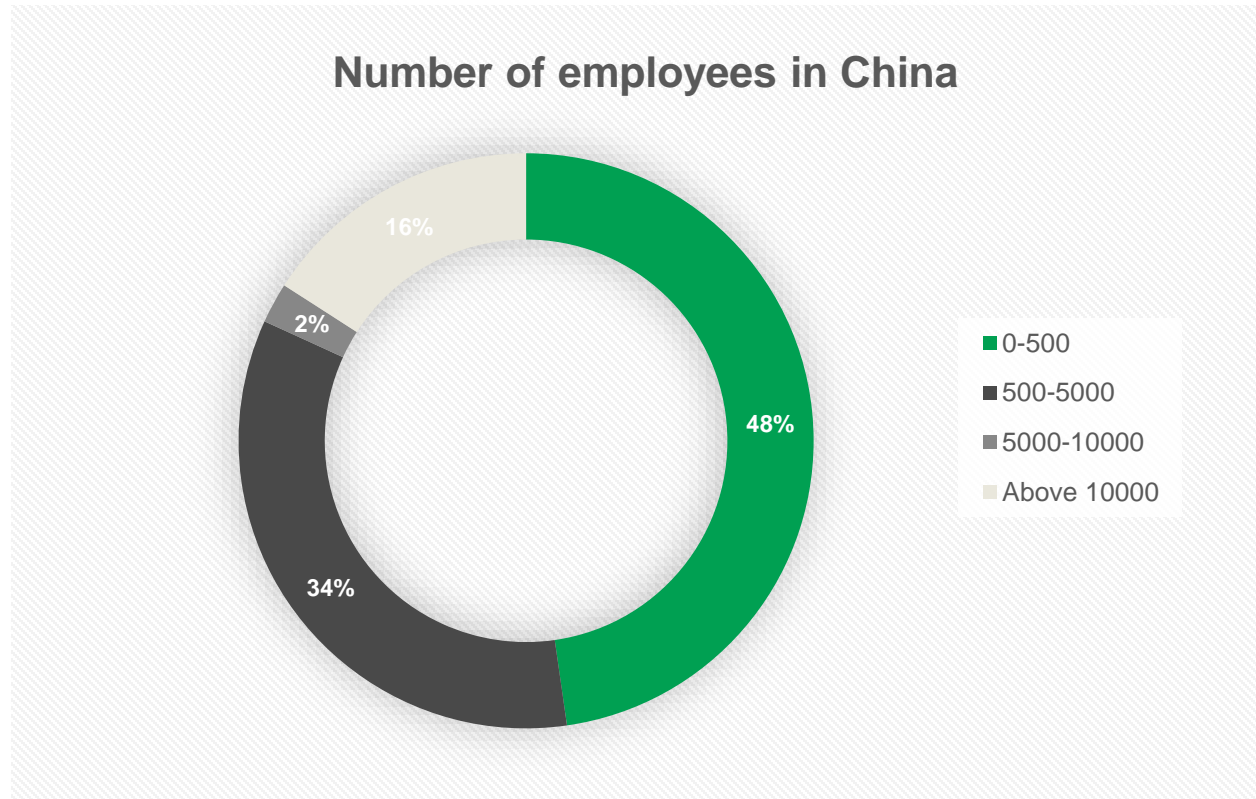
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## About the Survey

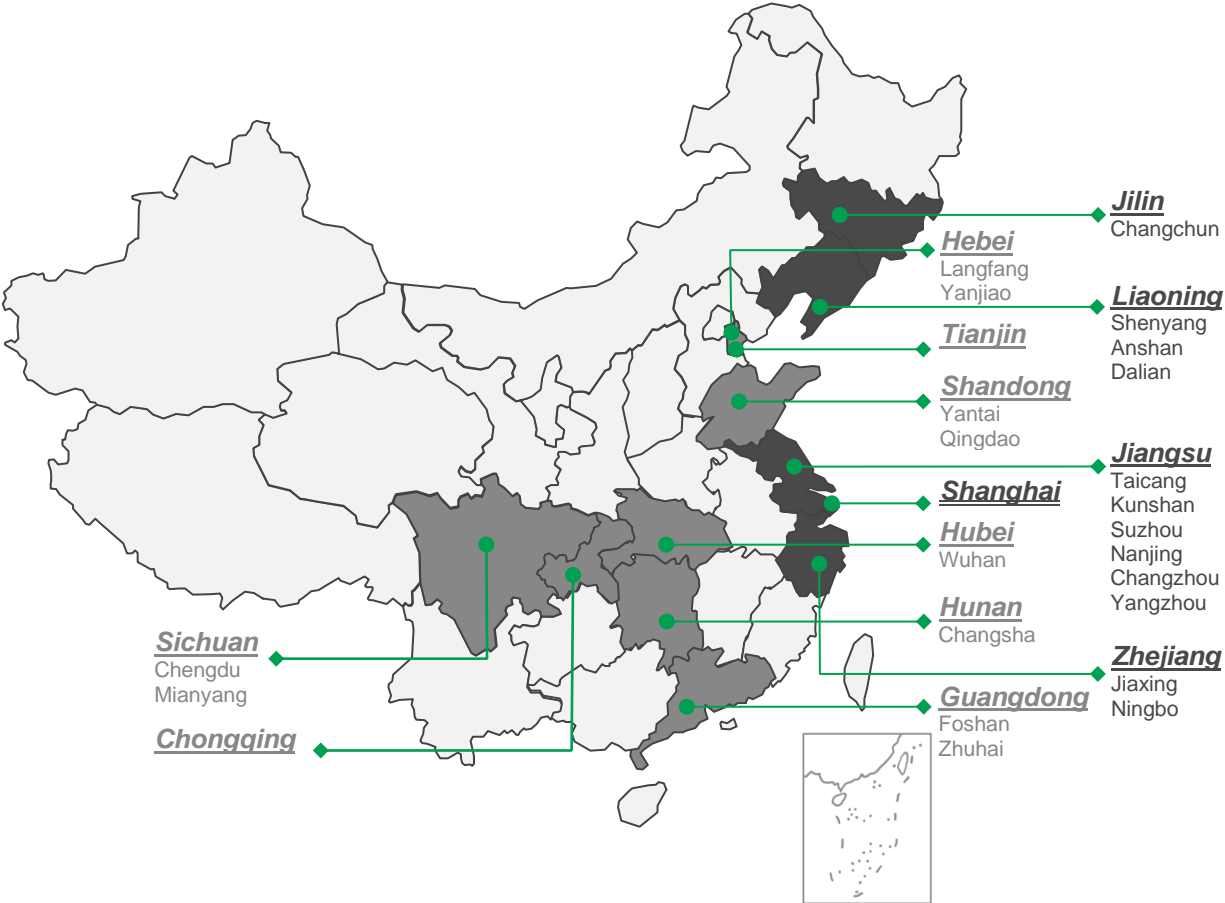
The VDA China Survey of The Impact of the COVID-19 on VDA Members in China was conducted between May 9 to May 31 with the feedback of 45 member companies of the German Association of the Automotive Industry (VDA) including OEMs and suppliers. The VDA survey reflects the status quo of the German automotive industry in China during the resurgence of the pandemic since March 2022.

The survey covers four major fields including general situation; forecast in production and sales; challenges & impacts; strategy of supply chain management as well as expected support from central government and the VDA. With the feedbacks of participated members, it allows the VDA to track the status of the business management of members in China and to coordinate and support members on behalf of the German automotive industry in China.

### Company Size



## Affected Location in China



● Hard-hit Areas      ● Less Hard-hit Areas

## Summary

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Since the resurgence of the pandemic in early March, major cities in China went through longstanding lockdown, which have brought great damage to the automotive industry. Starting this April, local governments issued a series of measures to support the resumption of work and production, and to overcome the difficulties in supply chain and logistics. To closely monitor the current situation and further analyze the impact on members, VDA China conducts the 2<sup>nd</sup> round of the Survey in May.

To compare the key findings with the *VDA Industry Survey* conducted in March, and *VDA COVID Survey* in April, the conclusion is blindingly obvious that the automotive industry is still in a difficult position with numerous challenges ahead.

### **The major findings of this survey are:**

**General Situation:** the whole situation got deteriorated from mid-to-late April. Overall, no companies spared the impact brought by the pandemic, of those who got heavily hit, four out of five are small and medium-sized enterprises, who got lower ability to bear the damage.

The pandemic-affected areas have spread from the outbreak regions to the neighboring cities, from the eastern coastal cities to inland.

**Companies' Forecast:** with the gradual opening up in May, more companies are stepping up in resumption of work and production. In spite of companies' efforts in restoring production and sales in the 2<sup>nd</sup> half of 2022, still two thirds of the companies predict that the full-year production and sales would reduce by less than 20%, over a fifth of companies will face loss of more than 20%.

**Challenges & Solutions:** the unpredictable pandemic situation becomes a new significant concern despite the insurmountable challenges in supply chain. With the disruption in cross border logistics and transportation, there are certain impact on the global supply chain. Companies are reconsidering supply chain management strategy to fight against future crisis.

**Business Confidence:** although the overall picture looks not very encouraging at this stage, and even for the whole year of 2022, for the long run, based on the communication with companies, they are still holding up confidence in China-as an indispensable market for the German automotive industry.

## Key Findings

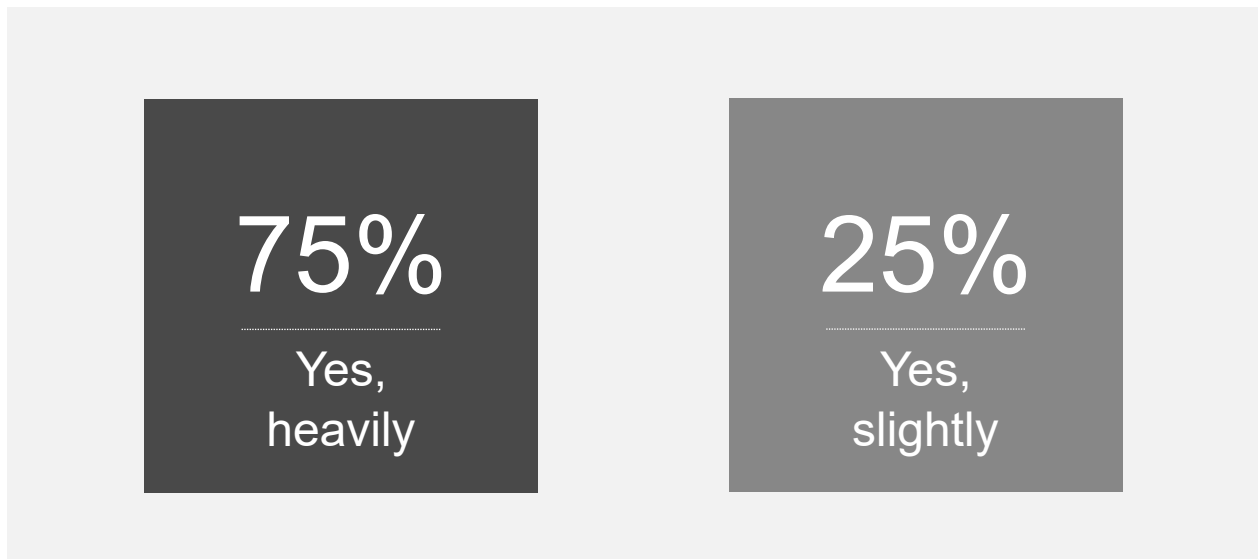
### Part 1: General Situation



No company spared from the impact brought by the pandemic. A heavy blow to small and medium sized enterprises particularly.

#### Figure 1

Is your company affected by the outbreak of the pandemic since early March?



All respondents indicated that they have affected by the resurgence of the pandemic in 2022, while three quarters of the respondents reporting they got heavily hit.

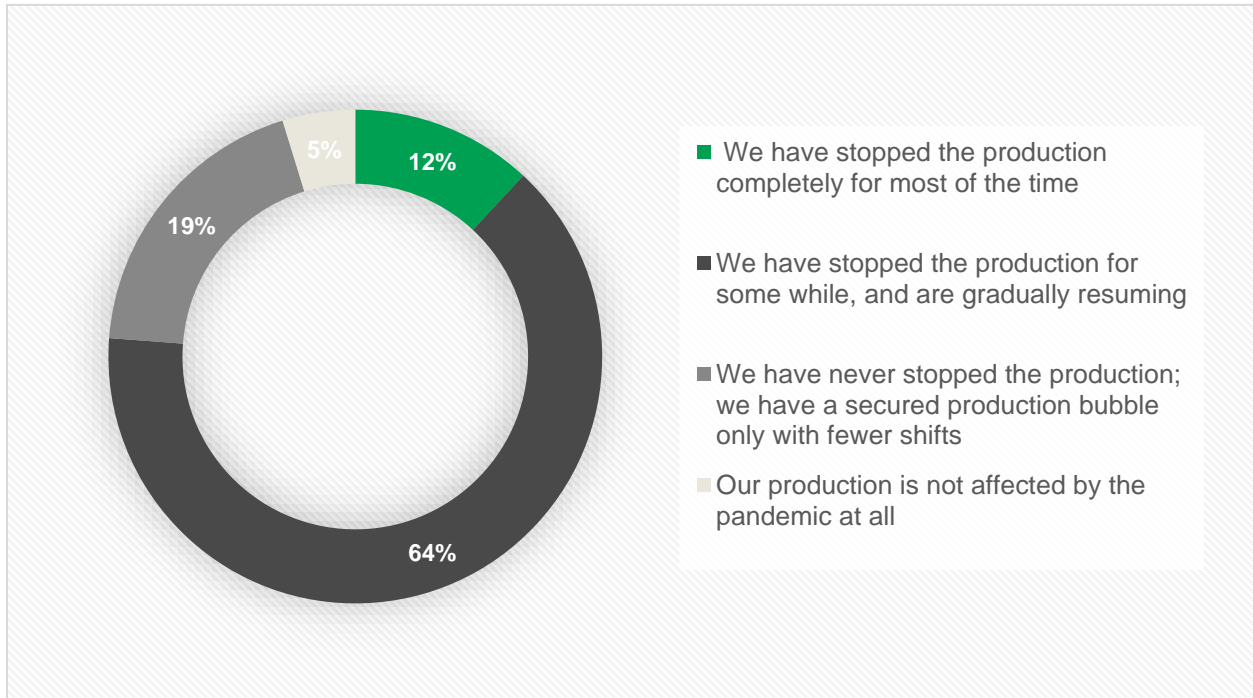
With the intensified prevention policies since late April, more and more companies got involved with the pandemic crisis, almost all of the small and medium-sized enterprises reported that they were affected heavily.



The automotive industry is reviving at a rather slow speed in May.

## Figure 2

### How is it affecting the production of your company?



Over half of the respondents have stopped production for a short while, whereas 12% have completely stopped at that time.

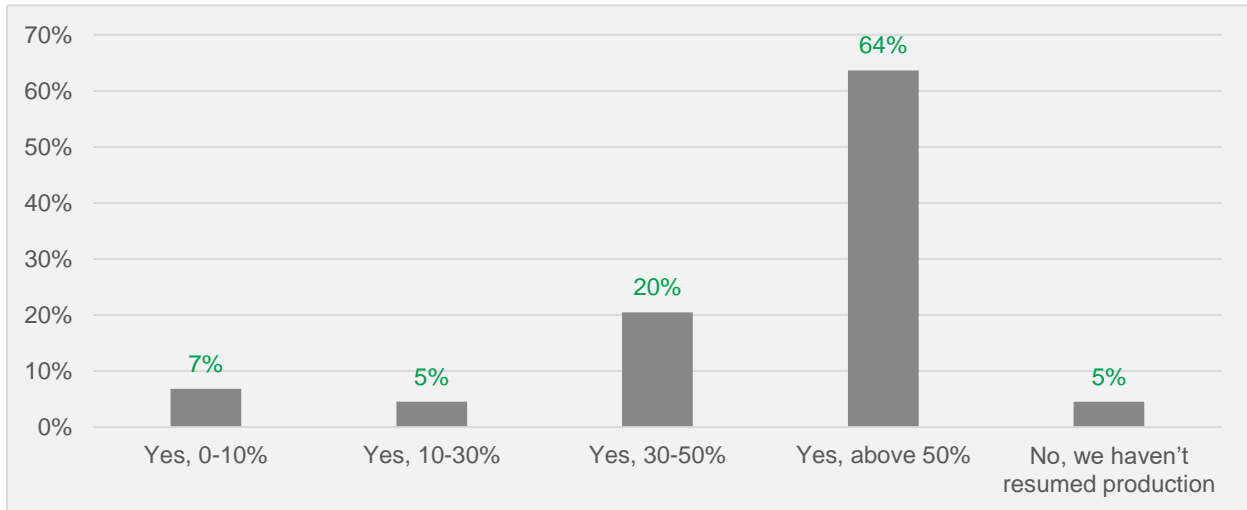
Different from the early phase of the pandemic this year, when nearly all production has banned in the major outbreak regions, since mid-April, a few companies started to take actions to resume production in a closed-loop, started with fewer shifts and gradually resuming.

Additionally, there are more facts we learnt from the respondents.

- Amongst those who have never or briefly stopped production, most of which are pillar companies locally or Tier 1 / Tier 2 suppliers, with rather practical workaround as well as more support from local government with resumption in work and production.
- Amongst those who have completely stopped production for most of the time are mostly small and medium-sized enterprises.
- For those reported that their production has not affected by the pandemic are either geographically far away from outbreak regions, or business-wise not involve production, for example, software service providers or engineering companies.

### Figure 3

Have your company resumed production? And what is the recovery rate?



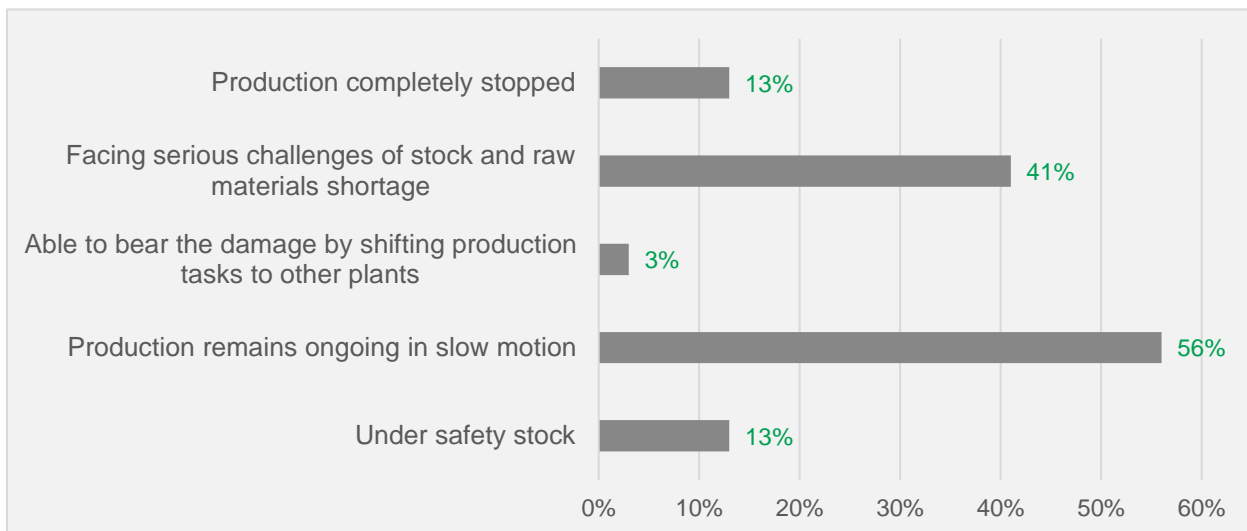
A number of enterprises have recovered more than half of their production as pre-level. There are still a few with rather slow speed in recovery. The recovery rate is gradually increasing compared with that in April.



**More challenges surfaced in the period of resumption. Companies' ability in risk-taking has diminished.**

### Figure 4

What is the status on your production sites in the pandemic-hit areas?  
(Multiple answers applicable)





By comparison with the same question of the survey in April, the situation gets worse in May to a larger extent. Even though, there are more companies resumed production with a slow motion, greater challenges are ahead.

A lot more companies are facing serious challenges of stock and raw materials shortage, or completely shut their production, meanwhile a lot less are under safety stock or still able to bear the damage by shifting production tasks to other plants.

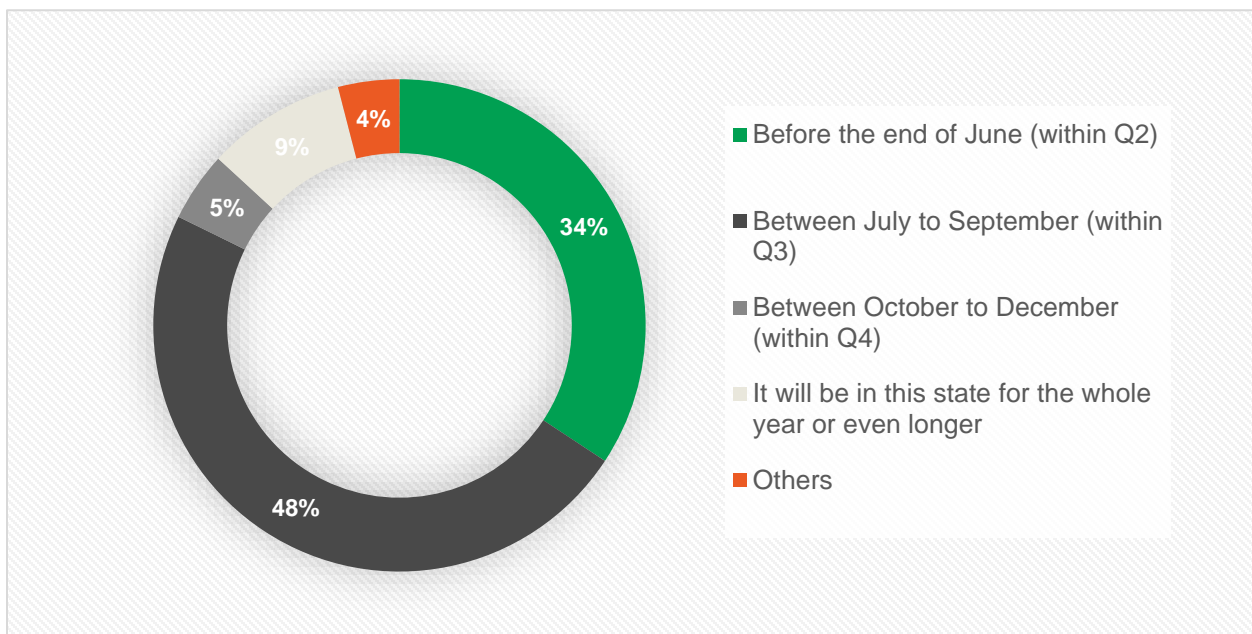
## Part 2: Forecast in Production & Sales



Companies are holding up confidence to take boost measures in the 2<sup>nd</sup> half of 2022 to mitigate loss in production and sales.

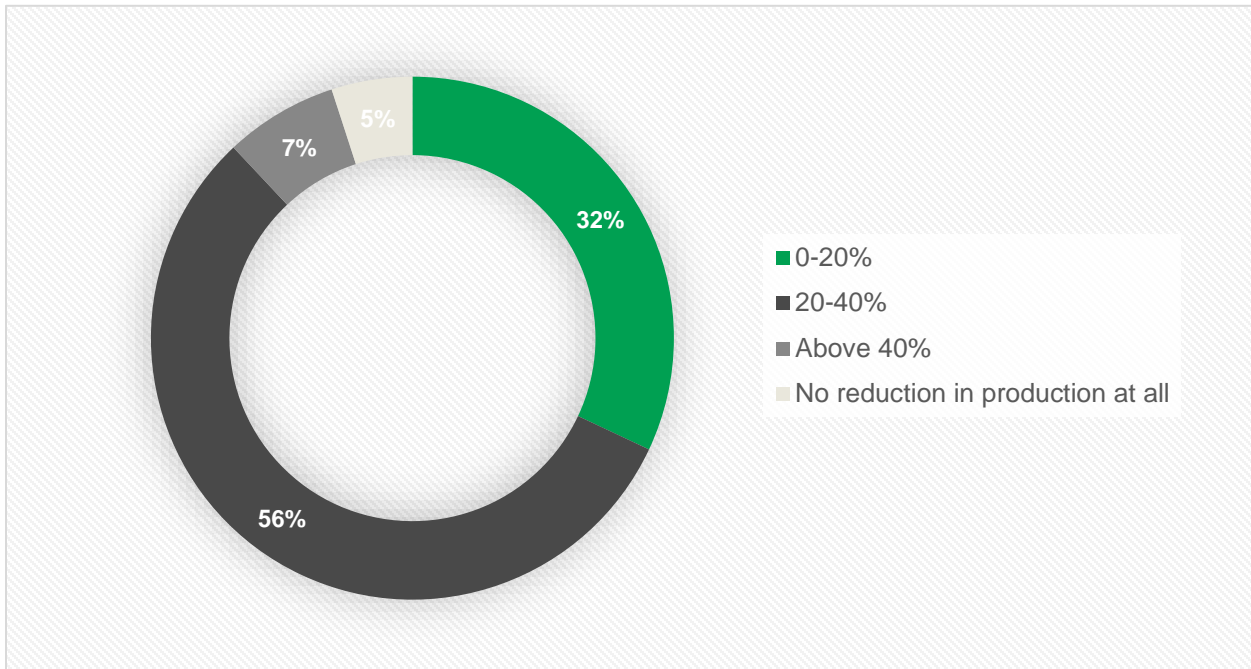
### Figure 5

Till when do you expect the situation would be eased?



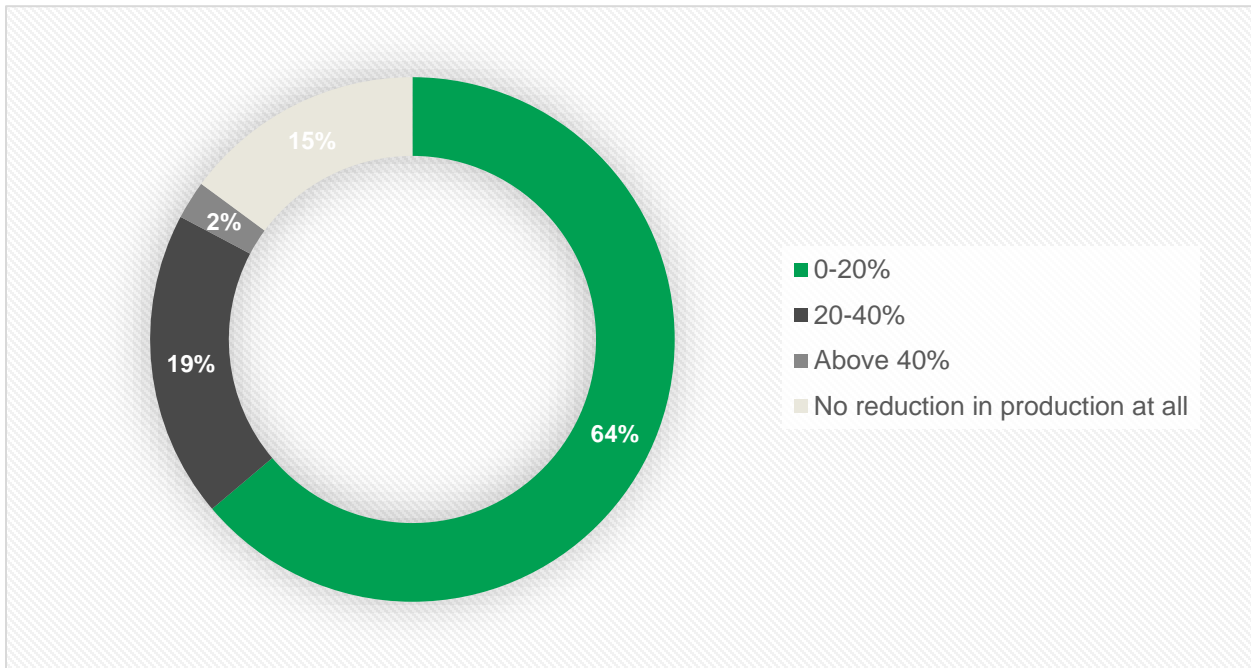
### Figure 6

How do your company forecast the reduction in production for Q1+Q2?



**Figure 7**

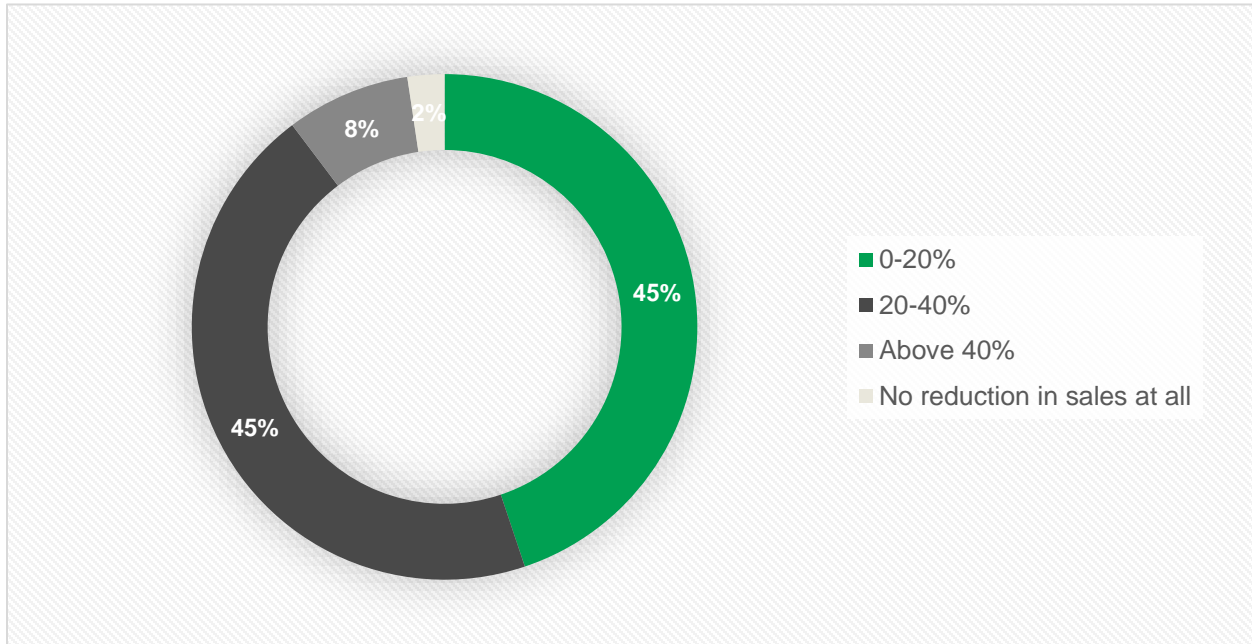
**How do your company forecast the reduction in production for 2022?**



More than half of the companies predict that the reduction in production for Q1 and Q2 in total would be between 20% and 40%; 64% of the respondents predict that the reduction would be down to less than 20% for the whole year.

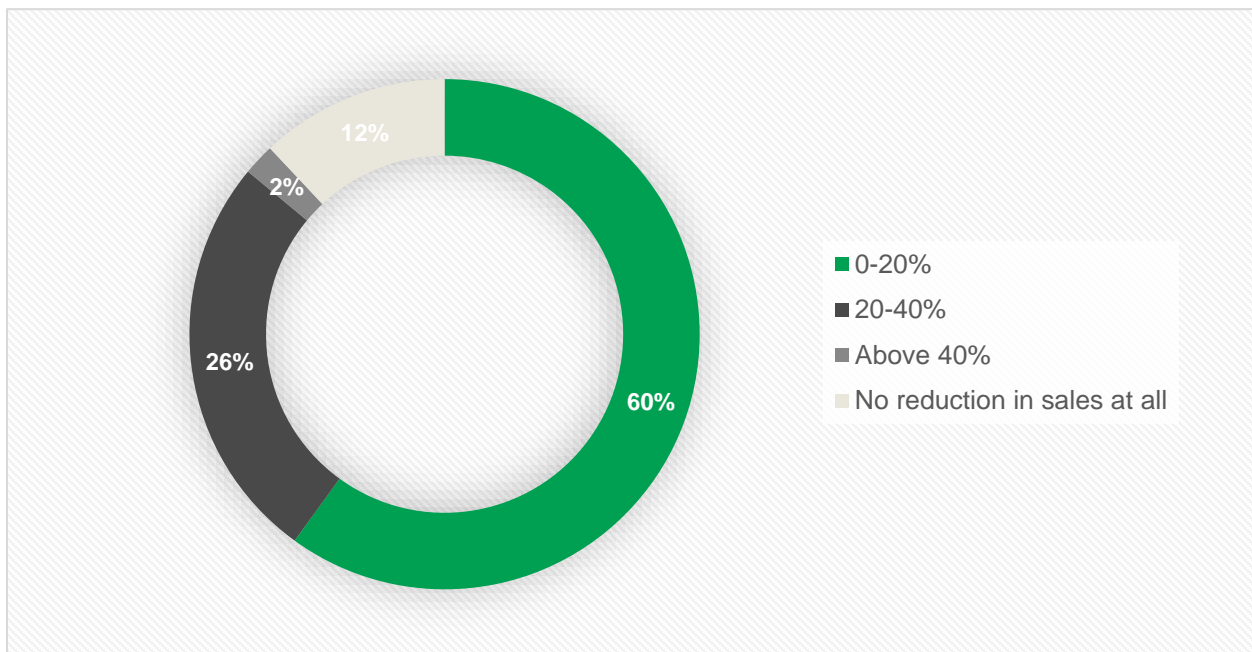
## Figure 8

How do your company forecast the reduction in sales for Q1+Q2?



## Figure 9

How do your company forecast the reduction in sales for 2022?



More than half of the companies predict that the reduction in sales for Q1 and Q2 in total would be between 20% and 40%; 60% of the respondents predict that the reduction would be down to less than 20% for the whole year.

The result shows that companies are confident to recover production and sales that were reduced due to the pandemic in the first half of the year. Four out of five companies believe that the situation would be eased before end of Q3, while the rest are holding back the confidence to the whole picture, expecting further lockdowns in the coming months depends on the China's overall zero-COVID policy.

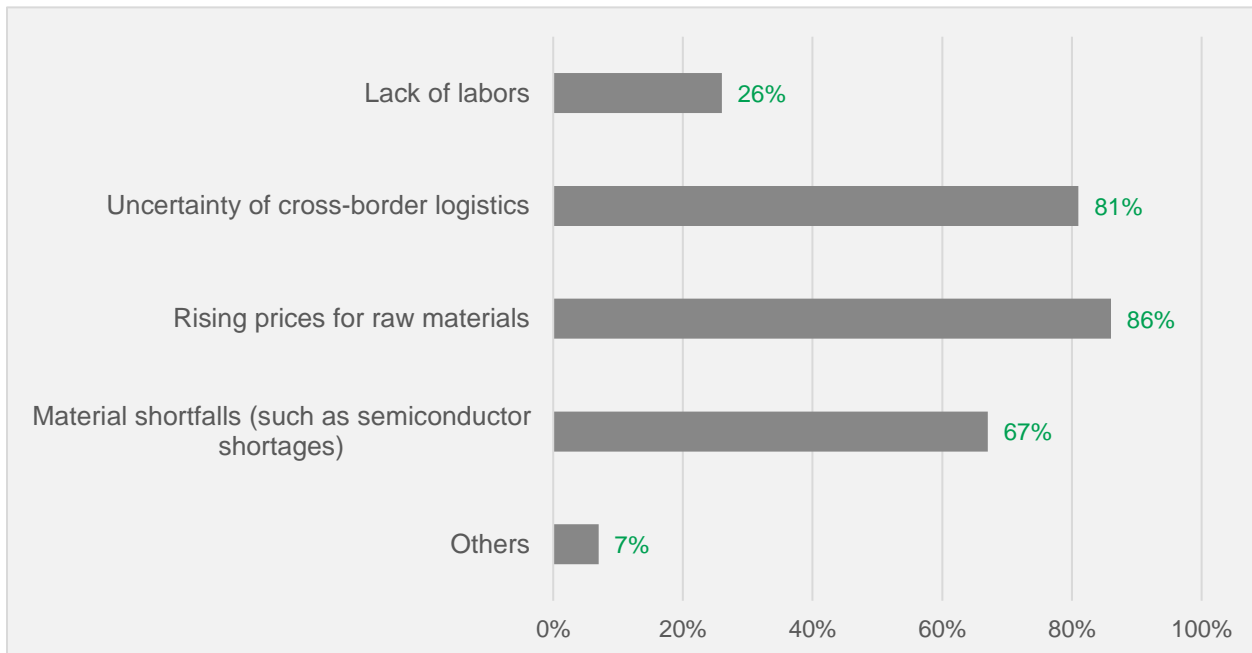
## Part 3: Challenges & Impacts



The stability of supply chain is the key factor to recovery, while unpredictable pandemic situation is the biggest obstacle.

**Figure 10**

**What risks or challenges of supply chain uncertainty your company is currently facing? (Multiple answers applicable)**

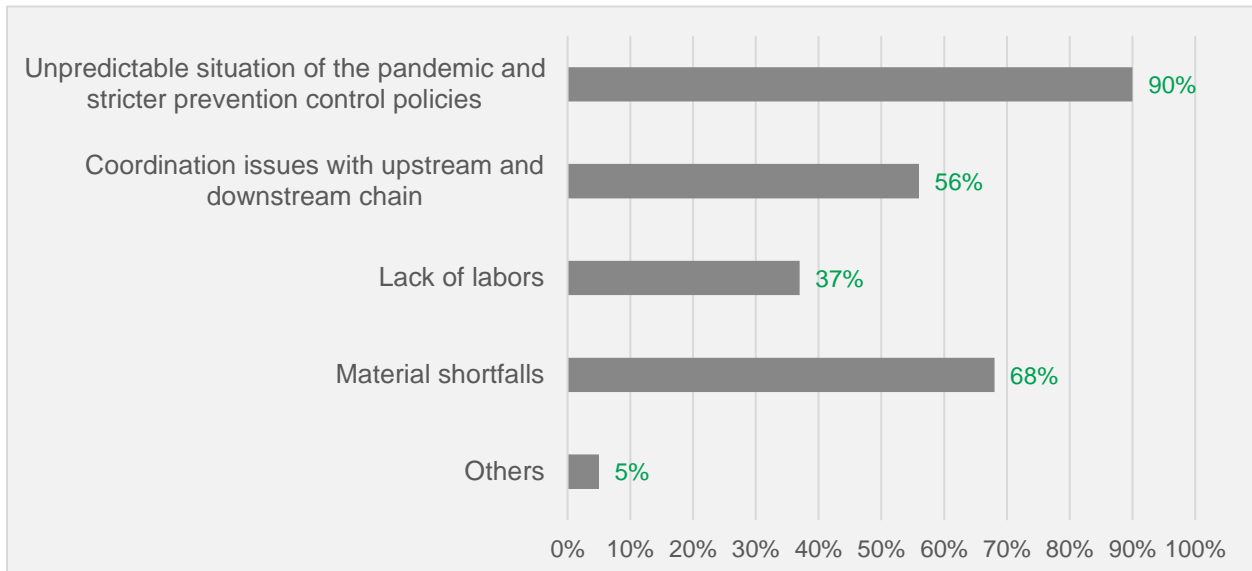


The survey in May reflects that all companies are facing various troubles in supply chain. The biggest challenges are rising prices for raw materials, uncertainty of cross-border logistics and material shortfalls. With the strict prevention policies, lack of labors also becomes a challenge in terms of getting experts abroad or workers back to plant.

One fact worth to be mentioned, compare with the *VDA Industry Survey* conducted in March, the percentages of the top 3 challenges nearly maintain the previous high ratio which means that on the base of the existing challenges, more problems have arisen.

## Figure 11

### What challenges are you facing in the process of resumption in production? (Multiple answers applicable)



Similar circumstances with the challenges of resumption in work and production.

On one hand, nearly all respondents reporting that unpredictable situation of the pandemic and stricter prevention control policies is the major challenge; on the other hand, material shortfalls and coordination issues with upstream and downstream chain are affecting resumption to some extent.

Compare with the results of *VDA Industry Survey* conducted in March (same question), Figure 11 reflects the fact that the automotive industry is facing the challenges in supply chain for over a quarter this year, not to mention that the shortage in some key components such as semiconductor was already a global supply chain issue.

(Note: Those who chooses “Others” of Figure 10 & 11 are companies with no manufacturing business involved, mostly software service providers or engineering companies.)

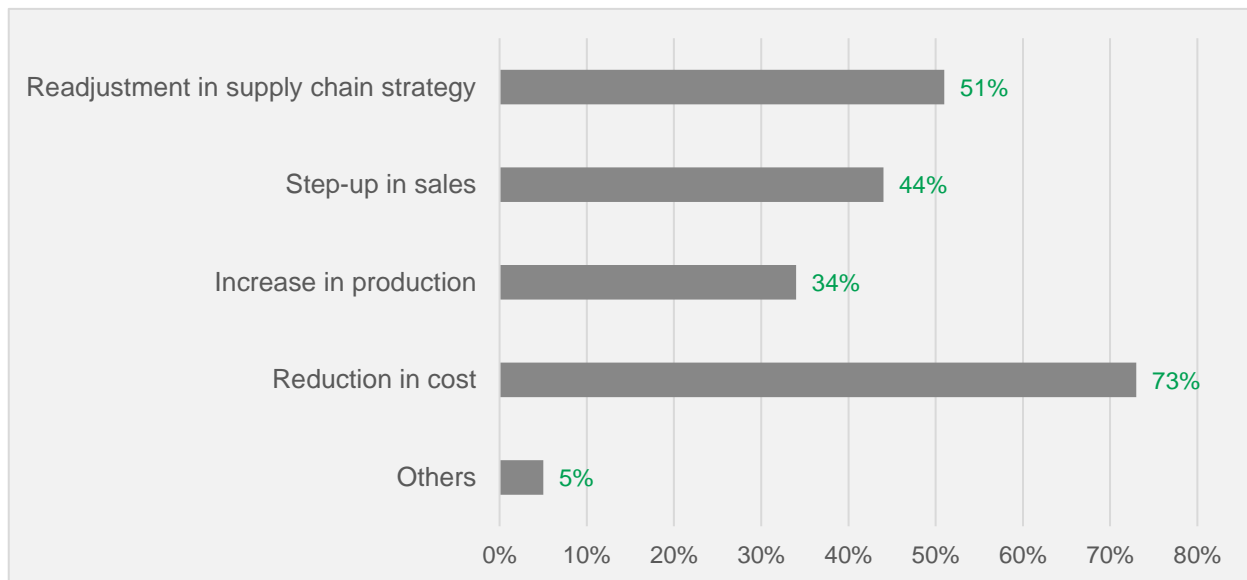
## Part 4: Strategy of Supply Chain Management



**Plan for the future: more and more companies are reconsidering their strategies of supply chain in China.**

### Figure 12

**What steps do you plan to mitigate the damage caused by the pandemic?  
(Multiple answers applicable)**

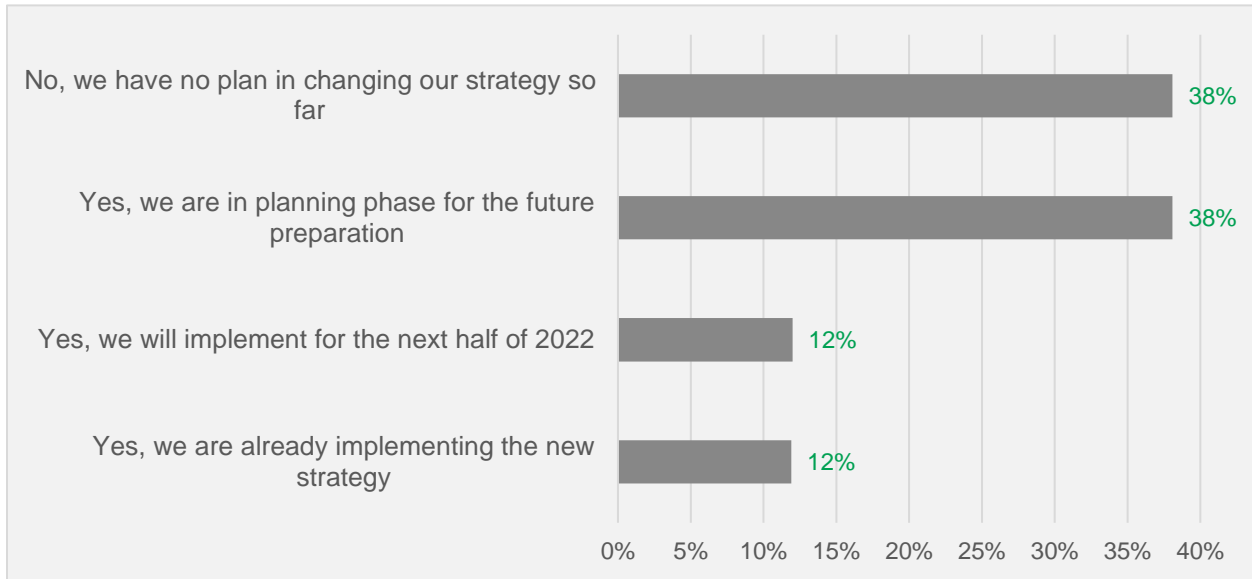


Companies’ confidence to mitigate the damage caused by the pandemic resulting in taking different measures. Three quarters of the respondents are planning to reduce operation cost in the future, while half of the respondents will readjust their supply chain strategy, one third of the respondents decide to step-up in sales or increase in production comes at the same time.

“Others” say that the increased material cost will be shared with customers.

### Figure 13

**Is your company reconsidering the strategy of supply chain management in China?**



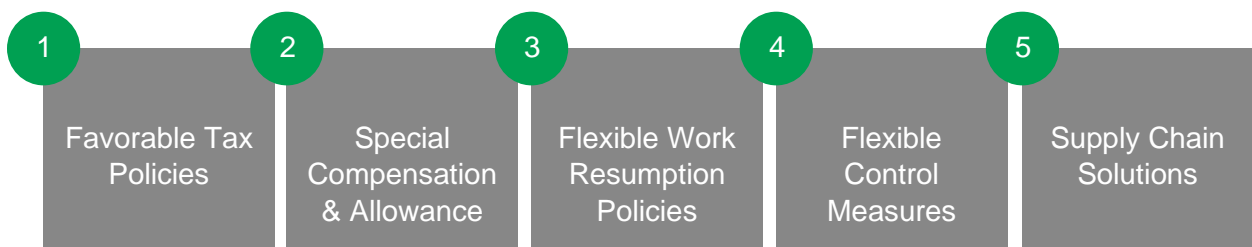
Facts from the feedbacks of respondents:

- Those who have no plan in changing strategies are mostly not or slightly affected by this outbreak.
- Those who are in planning phase for the future preparation are mostly Tier 1 suppliers who are more capable for risk-taking.
- Those who will implement for the next half of 2022 or are already implementing the new strategy are mostly small and middle-sized companies who have less complicated position in the whole supply chain, with more flexibility in quick actions to adjust the supply strategy.

## Figure 14

### Where do you expect support from government e.g., tax bureau, the VDA or other parties?

In the process of resuming work and production, government support is indispensable. Figure 14 is open to respondents to express their expectations and called on the government to provide favorable support that can be summarized into below 5 aspects.



Enterprises call for special compensation and allowance include 1) social security payment reduction, 2) close-loop management cost compensation, 3) additional logistic and transportation compensations, and 4) enterprise pandemic subsidies. Moreover, reduction and exemption of taxes are needed to ease financial worries. Financial assistance from government can directly help reduce the labor and operation costs of enterprises and enhance their confidence in returning to work.

On the other hand, as the pandemic control has become the new norm for enterprises' daily operation, enterprises look for more transparent resumption policies and more flexible measures to encounter the pandemic, travel policies, such as "green channel" and travel exemption are also essential to ensure the normal operation.

The pandemic has triggered supply chain tension: production shut down, transportation capacity frustration, as well as price rise of both domestic and international materials. Enterprises look forward to stronger government measures to ease the supply chain tension and to promote the stability and smoothness of the supply chain.

As the voice of the German automotive industry in China, VDA China speaks on behalf of the industry for more favorable policies and stimulation plans, flexible and unified pandemic control measures. VDA China will continue promoting the communication with relevant parties to strengthen the industry consensus.



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