



## Losing momentum in the charge toward electric vehicles

### Deloitte Commentary: Q1 2024 MEMA OE Vehicle Supplier Barometer

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Let's be clear, sales of electric vehicles are still growing in the North American market. According to GlobalData,<sup>1</sup> a record-setting 1.2 million battery electric vehicles (BEVs) were sold in the U.S. last year. However, the *momentum* of electric vehicle sales, which is likely driven by ambitious regulatory targets tied to decarbonization goals, is an important issue facing many automotive suppliers. These companies have invested heavily in an effort to gear up for an electrified mobility future that does not seem to be materializing nearly as fast as many expected.

Results from the [2024 Deloitte Global Automotive Consumer Study](#) indicate that 67% of U.S. consumers would most want a traditional internal combustion engine (ICE) in their next vehicle. This compares to 58% last year, representing a reversal of the trend away from ICE technology observed in prior study years.

This development aligns with results from the Q1 2024 MEMA Barometer survey that suggest the top threat facing auto suppliers is softening demand for the vehicle programs they support, particularly EVs. Lower demand for EVs is causing dealer inventories to swell which is prompting some manufacturers to trim production<sup>2</sup> in favor of more profitable ICE models, likely leaving some suppliers to wonder whether their OEM customers will achieve their quoted EV program volumes.

In total, production of light vehicle EVs in North America is expected to grow from 1.1 million units in 2023 to 6.6 million units by the end of the decade.<sup>3</sup> On one hand, that represents significant growth over a seven-year forecast horizon. On the other hand, EV production in 2030 is expected to only account for 39% of the 17 million light vehicles produced on the continent. Current estimates suggest over half of

the cars and light trucks produced in 2030 will still be powered by combustion engines.<sup>4</sup>

The slowing of EV momentum is also appearing to prompt regulators to rethink the timing of pending emission standards that have been carefully designed to encourage the rapid shift to zero-emission, electric vehicles. While the overall goal of having BEVs represent 67% of new vehicle sales by 2032 remains intact for now, the interim pace of change is being relaxed to give companies and consumers more time to adjust.<sup>5</sup>

One of the main reasons for the slowing of EV momentum could be the financial stress consumers are feeling in an uncertain economic environment. According to Deloitte's [ConsumerSignals](#) study, 28% of people in the U.S. are concerned about their credit card debt while half say they are worried about the amount of money they have saved and nearly 4 in 10 (37%) say they could not afford a major unexpected expense in the next three months.

At the same time, 3 out of 4 EV intenders expect to pay less than \$50,000 for their next vehicle.<sup>6</sup> However, Kelly Blue Book estimates the average transaction price for an electric vehicle in December 2023 was already \$50,789,<sup>7</sup> signaling a significant gap between consumer perceptions and the reality of current market conditions. While some relief on vehicle prices and monthly payments could take the form of interest rate cuts in the second half of the year, stubbornly high inflation is keeping the Federal Reserve on the sidelines, resulting in rates that will likely stay higher for longer than many may have expected.

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Suppliers also seem to be feeling the pressure of financial uncertainty as the top external challenge identified by MEMA members in the Q1 Barometer survey is sub-tier supplier financial distress followed by the risk of further supply chain constraints. Many smaller suppliers reported that they are still feeling the effects of exogenous events, including the global chip shortage, debilitating supply chain disruptions, and costly labor negotiations. As a result, suppliers are attempting to mitigate these challenges by prioritizing lean manufacturing and supply chain management optimization initiatives. Strategies for R&D spending have also changed since last year when suppliers indicated they would focus their efforts on developing powertrain technologies. However, the highest priority for R&D spend this year has shifted to advanced material technologies.

Despite these challenges, there appears to be optimism among suppliers that the U.S. economy can avoid a recession as 3 out of 4 companies surveyed for the Q1 Barometer place the probability of a downturn in the next 12 months at less than 40%. Consumers also seem to be feeling somewhat optimistic about the future as 44% expect their financial situation to improve in the coming year, representing a significant gain over last year when 37% said the same.<sup>8</sup> Considering all the challenges automotive suppliers have faced over several years of turbulent market conditions,<sup>9</sup> avoiding a recession with a more financially confident consumer eager to explore an electric mobility future would likely be a welcome change, assuming further "black swan" events can be avoided and conditions can align just right.

## Endnotes

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<sup>1</sup> GlobalData Light Vehicle Powertrain Fitment Forecast.

<sup>2</sup> Nick Carey and Joseph White, [Industry pain abounds as electric car demand hits slowdown](#), Reuters, January 30, 2024.

<sup>3</sup> GlobalData Light Vehicle Powertrain Fitment Forecast.

<sup>4</sup> *ibid.*

<sup>5</sup> Coral Davenport, [Biden administration is said to slow early stage of shift to electric cars](#), New York Times, February 17, 2024.

<sup>6</sup> Deloitte 2024 Global Automotive Consumer Study.

<sup>7</sup> Cox Automotive, [A record 1.2 million EVs were sold in the U.S. in 2023, according to estimates from KBB](#), January 9, 2024.

<sup>8</sup> Deloitte ConsumerSignals, February 2024.

<sup>9</sup> David Leggett, [Pressing issues for automotive supply chains](#), Just Auto, February 29, 2024.

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