

‘The barrel is empty’ and chip shortage is now expected to cost automakers \$210B in sales

Article

The news: The global chip shortage has become unmanageable as Asian factory shutdowns compound their scarcity. The slowdown in auto manufacturing and sales could cost automakers up to \$210 billion in lost sales, [per](#) Bloomberg. The forecasted losses have increased 91% from an earlier forecast update of \$110 billion in May.

How we got here: Despite ongoing efforts to [shore up](#) the supply chain, the latest forecast from AlixPartners predicts automakers will build **7.7 million fewer cars** than planned—almost double the consultant’s previous estimate of 3.9 million. And the global chip shortage is expected to continue for [years](#) to come.

- **Toyota** [cut](#) its production by 40% as it depleted chip stockpiles. Competitors like **Ford, Fiat Chrysler**, and **Nissan** have felt the pinch more intensely.
- **“The barrel is empty, there’s nothing left to scrape,”** said Dan Hearsch, managing director of AlixPartners’ automotive and industrial practice. “Sales hadn’t suffered because there was enough inventory to draw from. It’s not there anymore.”
- Key supply centers in Asia are undergoing COVID-19-related factory shutdowns. **Chip orders now take a record 21 weeks to fill.**

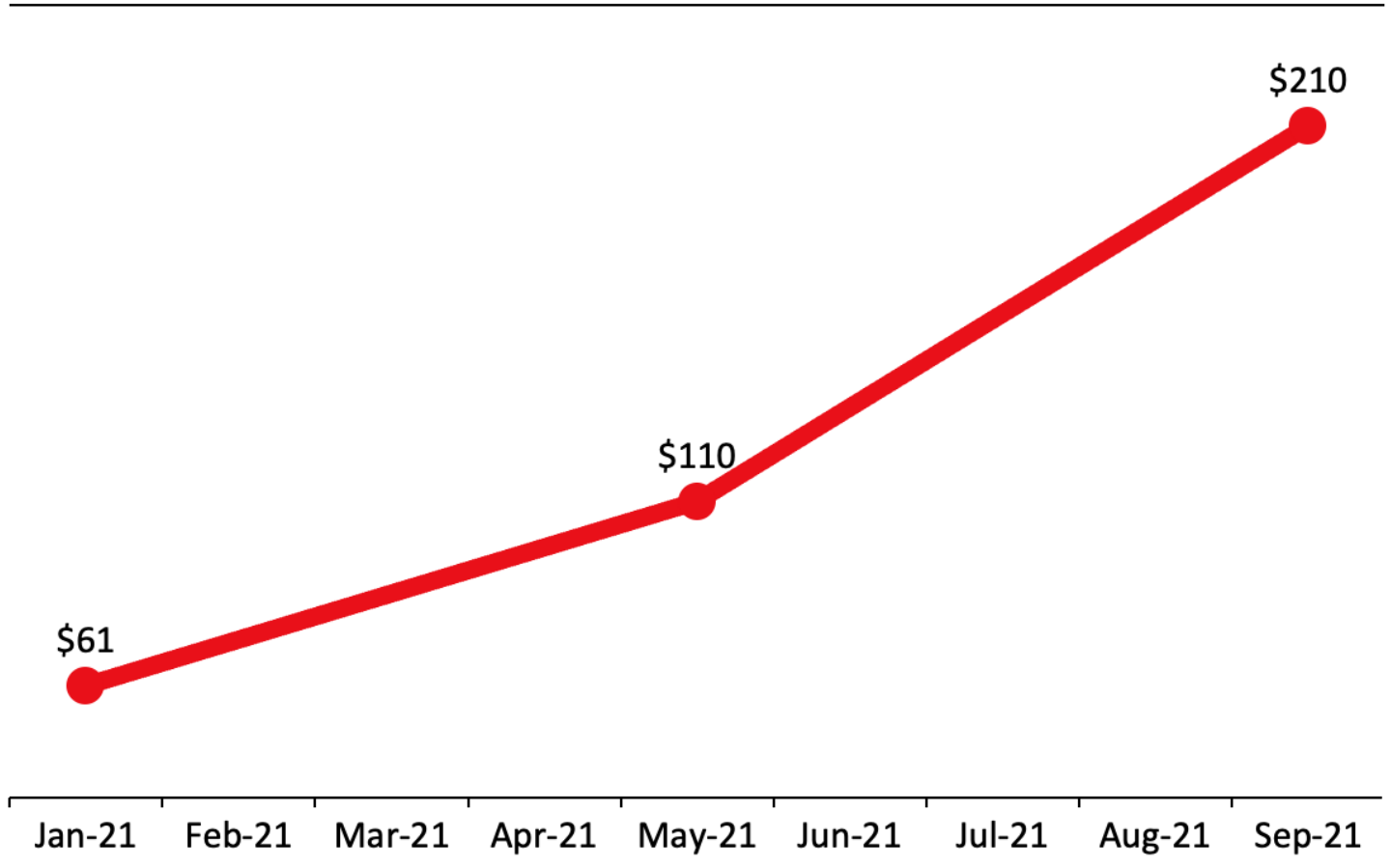
The big takeaway: The entire auto industry faces massive earnings cuts this year due to the chip shortage, compounded by factory closures due to COVID-19 surges and various natural disasters.

- Consumer demand and higher profits from [skyrocketing](#) new and used vehicle prices had mitigated these losses. But now even those supplies are drying up. Supply is so constrained that some car dealers have resorted to renting cars so they have something to display in their showrooms.

A solution to the chip shortage is nowhere in sight. IHS Markit estimates that the semiconductor supply won’t catch up with industry demand until late 2022, and that the shortage of advanced chips will persist into 2023 and beyond.

Automotive Chip Shortage Cost Estimate

Cost In billions



Source: AlixPartners

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