



German carmakers are losing market share of late – albeit not everywhere

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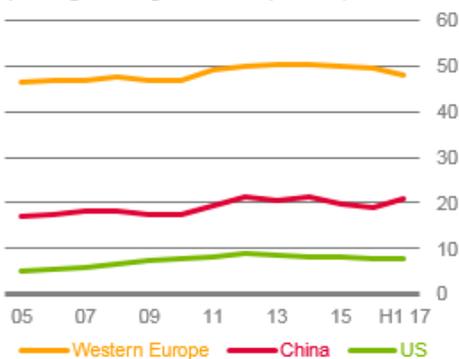
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Loss of market share in western Europe and the US

Share of German brand vehicles in new passenger car registrations resp. sales*, %



* US: Light vehicle sales

Source: VDA

German carmakers have recently lost market share in Western Europe and the USA, also – but not exclusively – due to the diesel debate. In China, the market share of German carmakers picked up again in the first half of 2017 vis-à-vis the preceding two years. Overall, chances are good the German automotive industry can in future at least maintain its position in the key global auto markets.

Recently, the German automotive industry is producing good as well as bad news. On the one hand, excessive emissions of many diesel cars have severely damaged the image of the industry. On the other hand, the vast majority of companies reported solid financial results. The IAA is also a mixed bag, showcasing high horsepower SUVs and sports cars, whilst, at the same time, companies are announcing an alternative fuel model offensive for the years ahead.

Moreover, the shares of German automakers in the three key car markets (China, USA, Western Europe), also painted a mixed picture in recent years. In this respect, it is worthwhile to distinguish between the long term and the short term. On a long-term horizon, German carmakers (group brands) expanded their shares in all three markets. At the current margin (H1 2017), they are up on the level of 2005, in part sharply. The share in China, for instance, recently came to 20.8%, which marks an increase of roughly 4 pp on 2005.

On the short-term horizon, however, the picture is less (clearly) positive. In the first half of 2017, the share in all three markets was down from its respective peak. In the US, it has been declining fairly steadily since 2012 by a total of around 1 pp to 7.6%. The diesel scandal and the resulting damage to the image ought to have been a contributing factor, at least from 2015 onwards, even though diesel plays only a subordinate role in fuelling light vehicles in the US. Another reason why German group brands lost market share in the US is that light vehicle sales are increasingly driven by the segment of light trucks in recent years, which are particularly voluminous by European standards. German carmakers, however, are better positioned in the second segment, traditional passenger cars.

In China, the market share of German group brands in the first half of 2017 was down by 0.6% pp from its peak in 2014, but this marks an improvement vis-à-vis 2015 and 2016. Recent volatility can in part probably be ascribed to the model

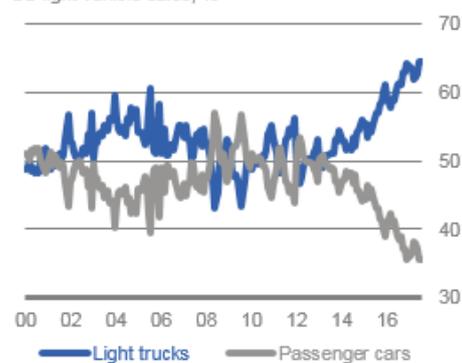


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cycle. Moreover, a tax cut on vehicles with relatively small engines favoured domestic carmakers in 2015 and 2016. In China, as well, diesel plays no role as a fuel for passenger cars.

US car market: Light trucks on the rise

Share of light trucks and passenger cars in US light vehicle sales, %



Source: Bureau of Economic Analysis

In Western Europe, the world's largest diesel passenger car market, German automakers had a market share of 48.2% in the first half of 2017; which marks a decline of 2.3 pp compared with 2014, the record year to date. It is highly plausible that the decline stems from the diesel debate, the more so as VW Group suffered above-average losses, whereas other carmakers reported increases. But for Western Europe, like for the other markets, it holds that the evolution of market shares – now and in future – cannot be boiled down to a monocausal explanation.

Overall, chances are good the German automotive industry can in future at least maintain its position in the key global auto markets. Accusations frequently voiced by some media, politicians and NGOs that German carmakers have slept through technological trends such as electromobility (or autonomous driving) are simply false generalisations. In any case, alternative fuels continue to be a niche market and predominantly obtain higher market shares only if they are subsidised. Carmakers relying on a generous subsidy regime for electric cars, however, are facing regulatory and economic risks.

In the years ahead, the technological progress will help to improve the price competitiveness of electric and hybrid cars vis-à-vis cars with conventional combustion engines. Moreover, market penetration of alternative fuels is likely to rise, courtesy of regulatory standards such as CO₂ ceilings for passenger cars. But at the end of the day, the customer decides which car he wants to buy. And in the past, the German automotive industry was good at understanding the tastes of consumers, even though some (ecologically-oriented) market watchers steadily raise the question as to whether SUVs, off-road vehicles or powerful high-end vehicles really make sense.

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