

Box 5

DEVELOPMENTS IN THE EURO AREA AND GLOBAL CAR INDUSTRIES

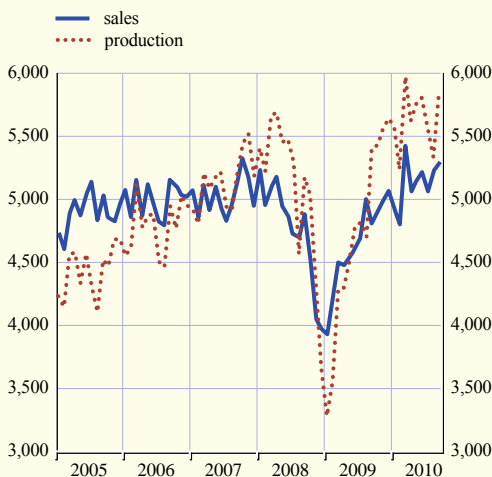
Although car purchases only constitute a small proportion of private consumption (around 5% in the euro area) the overall automotive sector – which includes supplying industries, dealerships, etc. – plays a much greater role in explaining overall value added. Thus, car sales and production have followed business cycle fluctuations as measured by aggregate demand reasonably closely in the past. Recently, however, this link between car purchases and growth has been distorted as a result of various fiscal incentive schemes geared towards car purchases which have been (or still are) in place in a number of countries both inside and outside the euro area. Against this background, this box reviews recent developments in the purchasing and production of vehicles in the euro area, as well as at the global level.

Car sales at the euro area and global level

In 2008 and 2009 the automotive industry, like many other sectors, was significantly affected by the global financial crisis. Indeed, global vehicle sales plunged almost 25% from their peak in April 2008 to their trough in January 2009 (see Chart A) as global financing conditions tightened, household net worth dropped, uncertainty soared and labour markets deteriorated. Although the United States was initially at the centre of this collapse, other countries, including those in the euro area, were also affected by the global downturn. In January 2009 sales in the euro area, as measured by new passenger car registrations, stood more than 25% below their most recent peak in April 2008 (see Chart B), i.e. in line with the global picture.¹

Chart A Global vehicle sales and production

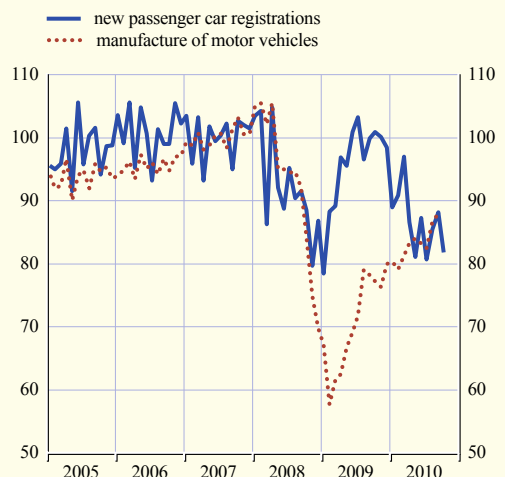
(thousands of units; monthly data)



Sources: Haver Analytics, CEIC and ECB calculations.
Note: The latest observations refer to September 2010.

Chart B New passenger car registrations and manufacture of motor vehicles in the euro area

(index: 2007 = 100; monthly data)



Sources: ACEA and Eurostat.
Note: The latest observation for new passenger car registrations refers to October 2010, while production refers to September 2010.

¹ Sales of commercial vehicles, which are not elaborated upon further in this box, were even more affected by the global downturn.

This triggered major repercussions for global industrial production due to global supply chain linkages, as car production represents an important part of industrial production in many countries. In response, the car industry has been at the heart of widespread government support, through vehicle scrappage schemes and massive government bailouts in some countries. As a result of these support measures, sales recovered rapidly in the euro area and globally. A split between advanced and emerging markets shows the same picture (see Chart C). However, while car sales are already above pre-crisis levels in emerging market economies, they remain more subdued in advanced economies.²

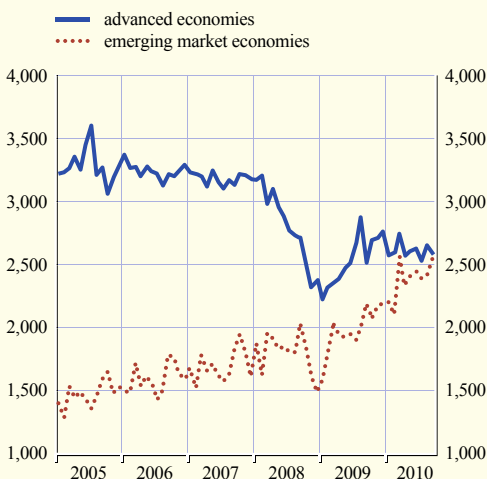
Production of motor vehicles at the euro area and global level

Some interesting insights are also to be found when comparing demand for cars with production.³ Production responded with some delay to the downturn in demand in 2008 at the global level, as well as in the euro area. However, global supply was cut back and, by early 2009, the level of production was already much lower than a year earlier. Production growth remained below that of sales, suggesting that massive de-stocking took place during this period. In the euro area, the difference between production and passenger car registrations cannot be directly translated into inventory movements, as a large proportion of production in the euro area is geared towards exports. Nonetheless, this picture of de-stocking is confirmed by global developments and anecdotal evidence, as well as the fact that credit constraints during the downturn forced companies to reduce stocks in order to raise liquidity and maintain cash flow.

As a result of the support programmes and the associated rise in car sales, car production soon increased. Indeed, as shown in Chart A, although production fell sharply below actual sales in early 2009 (resulting in inventory depletion), it has since recovered rapidly, currently standing at levels well above aggregate car sales. In mid-2010 global car production was almost 10% higher than global car sales.⁴ Similarly, production in the euro area has also shown a rapid increase since 2009, a development that is largely attributable to global demand, particularly from emerging markets.

Chart C Car sales in advanced and emerging market economies

(thousands of units; monthly data)



Sources: Haver Analytics, CEIC and ECB calculations.
Note: The latest observations refer to September 2010.

2 For more information, see the European Automobile Manufacturers' Association (ACEA) website at <http://www.acea.be/index.php> and the box entitled "The effects of vehicle scrapping schemes across euro area countries" in the October 2009 issue of the Monthly Bulletin.

3 The production series for the euro area includes motor vehicles, trailers and semi-trailers, and is thus not fully comparable with new passenger car registrations.

4 This analysis is not possible for the euro area, as production is published in the form of an index.

Short-term outlook

In the euro area, the pattern of rising car sales and contracting GDP that was observed for 2009 as a whole is likely to have reversed in 2010. While GDP is expected to continue to recover, car purchases have been declining, reflecting the withdrawal of the fiscal incentive schemes. Car registrations in the euro area are estimated to decline by some 10% in 2010 (using data up to October 2010), following a rise of over 3% in 2009. GDP, on the other hand, is expected to increase by between 1.6% and 1.8% (according to the latest Eurosystem staff sales) following a contraction of 4.1% in 2009. Looking ahead, recent developments in car sales, both in the euro area and in other advanced economies, tend to point to a stabilisation in the coming months, while car sales in emerging markets are expected to remain strong.