

Fall of car production – supply or demand?

Recent collapse in German car production raises eyebrows in CEE economies, as automotive sector is backbone for many. To assess whether another crisis looms, it is important to understand its character.

Analyst(s):
Juraj Kotian
juraj.kotian@erstegroup.com

Dropping car production in Germany threat to CEE

Collapse of car production in Germany

The recent slowdown of the German economy has raised eyebrows in CEE economies, as it has been accompanied by a visible collapse in car production. As of June, German annualized car production plummeted to 4.7mn (about one million less compared to 2015-17 average annual production) and reached a level close to the lows seen in 2009. The fall in car production – in both speed and magnitude – is strongly reminiscent of the situation in 2009. Should we be concerned that weak car manufacturing numbers provide strong evidence of another looming crisis?

Car production in Germany as low as in 2009 (Production volume, 12M sum, mn)



Source: Bloomberg, Erste Group Research

Contents

Drop of car production. **Error! Bookmark not defined.**

Supply or demand shock? . **Error! Bookmark not defined.**

CEE Macro & FI Research

Juraj Kotian (Head)

Zoltan Arokszallasi, CFA (Chief Analyst)
 Katarzyna Rzentarzewska (Senior Analyst PL)
 Malgorzata Krzywicka (Junior Analyst PL)

Note: Past performance is not necessarily indicative of future results.

Importance of Germany and car manufacturing in CEE

The numbers for car manufacturing in CEE speak for themselves that the automotive sector is the backbone of many CEE economies:

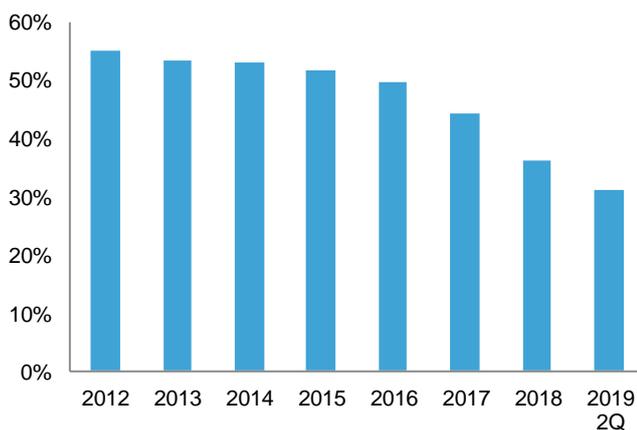
- About 10% of value added and 6-9% of jobs in these economies could be directly or indirectly linked to car manufacturing.
- Nearly every fourth car newly produced in the EU has been assembled in CEE.
- The region, with annualized production of about 4mn cars, is the second-largest car producer in the EU after Germany.
- CEE car producers and suppliers are an important part of the automotive Global Value Chains (GVC), especially the German one.

Supply or demand shock?

Cyclical shock? Hardly.

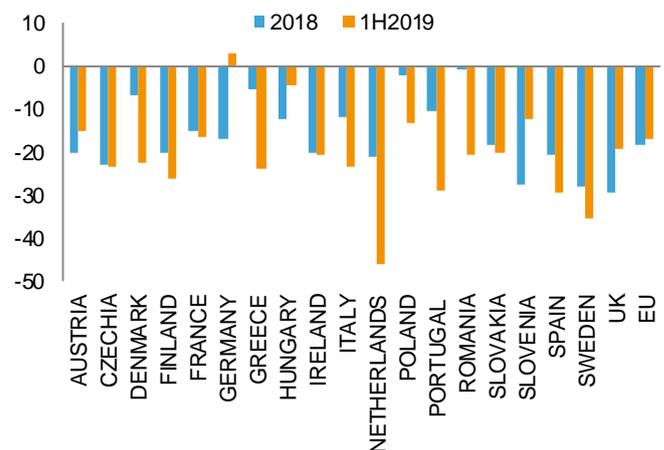
When we compare the current collapse in car production and sales with the situation in 2009, we see two major differences. In 2009, the collapse in car production was clearly the result of negative demand shock resulting from rising unemployment, denting the disposable incomes of households, and a big reversal of the credit impulse. At the moment, we do not see any of the above happening, suggesting that this collapse is not being fully driven by the economic cycle. Significant changes in the composition of car sales (decline in diesel, increase in electric vehicles) is the second difference that can explain the recent slump in car sales to large extent.

Share of diesels in new car registrations in EU
percent



Source: ACEA, Erste Group Research

Decline in diesel car registrations by countries
y/y change, percent



Source: ACEA, Erste Group Research

Change in consumer preferences and death of diesel

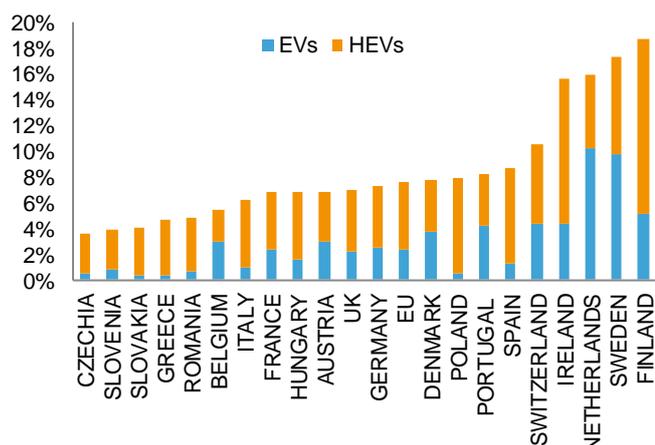
Falling new car registrations in the EU have been exclusively driven by falling demand for diesel cars. In 1H2019, registration of new diesel cars in the EU went down 17% y/y, after a 18% y/y drop in 2018. The share of diesel-powered cars in new registrations fell to 31% in 2Q19, well below the 55% peak reached in 2012. After the escalation of the 'diesel-gate' scandal, reinforced plans for the reduction of emissions via stricter regulations made it crystal clear that the era of diesels is nearing its end. While diesels have not yet been completely banned, there is a negative perception of diesels and huge uncertainty among potential buyers as to whether they will be allowed to use the cars without any restrictions in the future. Several countries and cities have adopted ambitious plans intended to reduce air pollution and one way of doing this is to restrict diesel entry into city zones. Some countries are moving a step further and plan to ban sales of new petrol and diesel cars in a decade or two.

Negative supply shock – lack of desirable electric vehicles

From the breakdown of car sales, it is pretty clear that the fastest-growing segment are Hybrid Electric Vehicles (Hybrids) and Electric Vehicles (EVs)

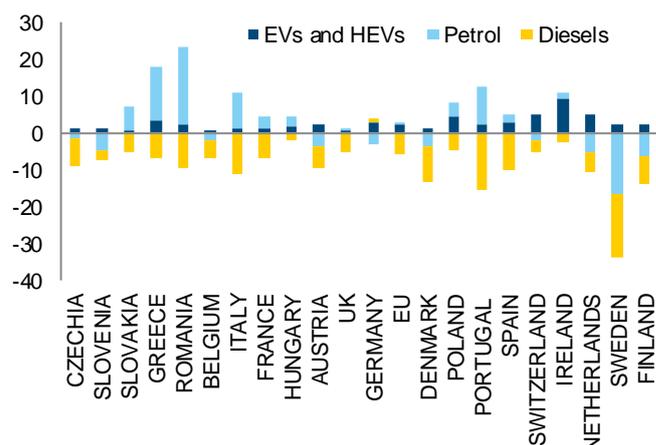
which includes also Plug-in Hybrids (PHEVs). In the EU, EVs + Hybrids had about 7.5% combined share (2.4% and 5.1%, respectively) of new car registrations in 2Q19. However, many car producers are behind the curve in delivering their new EVs to the market and consumers have to join waiting lists. Some consumers are deferring their purchase of EV until there is higher variety of EV models at affordable prices to choose from and until there is a more developed network of charging stations. According to Transport & Environment's report '[Car makers' electric car plans across Europe 2019-2025](#)', the number of available EV models should more than double in the next two years as major car manufacturers start to hit the market. Until then, petrol engines and Hybrids will remain the most common substitute for those who do not want to buy diesel and do not want to wait too long for their 'dream EV'. In countries with high EV popularity, even sales of petrol engine cars are falling, suggesting they are not seen as a desirable substitute for diesels and customers are willing to wait for 'better' EVs.

Share of EVs and Hybrids in new car registrations
 2Q19, percent



Source: ACEA, Erste Group Research

Contributions to growth of new car registrations
 2Q19, y/y change, percentage points



Source: ACEA, Erste Group Research

Implications for CEE automotive sector

In the next five years, we can expect substantial shifts in the composition of car production in Europe. During this period, overall demand and production could be temporary dampened by deferred car purchases, as the true era of Battery Electric Vehicles is to start only after 2025. This could lead to temporary lower GDP trajectory in the Czech Republic, Hungary and Slovakia (i.e. 10% lower car production lowers GDP level by 1 percent). In the meantime, a network of charging stations and battery supply is blossoming across Europe. Lack of battery supply and outages in deliveries has been the main bottleneck in higher production of EVs in Europe. According to the Transport & Environment report, European car producers have invested about EUR 145bn into electric cars and batteries. According to the T&E report, there should be a high enough capacity of battery supply built in Europe (131 GWh) by 2023, meeting the demand of European car producers. More than half of European battery production is planned to be located in CEE (in Poland and Hungary). CEE countries should quickly benefit from larger investments into electromobility once car producers scale up their EV production and eye on keeping costs down.

Contacts

Group Research

Head of Group Research
Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszállasi, CFA (Fixed income) +43 (0)5 0100 18781
Katarzyna Rzentarzewska (Fixed income, Poland) +43 (0)5 0100 17356
Małgorzata Krzywicka (Fixed income) +43 (0)5 0100 17338

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navrátil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428

Romania
Horia Braun-Erdei (Head) +40 3735 10424
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Covered Bonds/Financials) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds/Financials) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Stelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Dolenc +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Marek Dongres +420 956 765 218
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland
Tomasz Duda (Head) +48 22 330 6253
Cezary Bematek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Mateusz Krupa, CFA +48 22 330 6251
Michal Pilch +48 22 330 6255
Emil Poplawski +48 22 330 6252

Romania
Caius Rapanu +40 3735 10441

Turkey
Umut Cebir +90 2129120445
Berke Gümüş +90 2129120445

Treasury – Erste Bank Vienna

Corporate Treasury Product Distribution AT
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE
Head: Jaromir Malak +43 (0)5 0100 84254
Karin Rattay +43 (0)5 0100 84118
Christian Kienesberger +43 (0)5 0100 84323
Bernad Bollhof +49 (0)30 8105800 5525
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800-5507
Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
Head: Marc Frieberthäuser +49 (0)711 810400 5540
Sven Kienzle +49 (0)711 810400 5541
Michael Schmotz +43 (0)5 0100 85542
Ulrich Inhofner +43 (0)5 0100 85544
Klaus Vosseler +49 (0)711 810400 5560
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE
Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia
Head: Sarlota Sipulova +421 2 4862 5619
Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic
Head: Ondrej Cech +420 2 2499 5577
Milan Bartos +420 2 2499 5562
Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic
Head: Petr Holecek +420 956 765 453
Martin Perina +420 956 765 106
Petr Valenta +420 956 765 140
David Petracek +420 956 765 809
Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia
Head: Antun Buric +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary
Head: Peter Csizmadia +36 1 237 8211
Attila Hollo +36 1 237 8209
Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria
Head: Ciprian Mitu +43 (0)50100 85612
Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales
Head: Brigitte Zeitberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Cormac Lyden +43 (0)50100 83120

Business Support
Bettina Mahoric +43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as other information pursuant to the Circular of the Austrian Financial Market Authority regarding information including marketing communication pursuant to the Austrian Securities Supervision Act. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute marketing communication pursuant to Art. 36 (2) Austrian Securities Supervision Act as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to § 36 (1) Austrian Securities Supervision Act. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

Copyright: 2019 Erste Group Bank AG. All rights reserved.

Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com