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Analysis of the Automotive Industry in 2006

The Automobile and Automotive Supply Industry

A Key Industry Undergoing Global Change

Part 2: Current Trends

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Total **global vehicle production** in 2005 equalled its previous record level, reaching a volume of 64.9 million passenger cars and commercial vehicles combined. These figures represent a year-on-year rise of 3.4 per cent.

Automobile production in the EU (25) amounted to 18.2 million vehicles. Of these, 5.76 million passenger cars and commercial vehicles were manufactured in Germany.

Total German **domestic vehicle production** was up by 3.4 per cent compared to the previous year, i.e. it was growing at the same rate as total global production. German passenger car production climbed at a rate of 3.0 per cent, which was actually greater than that of total global passenger car production (+2.7%).

In the year 2005, 5,350,187 passenger cars and 407,523 commercial vehicles were built in Germany. This was the eighth year in succession that domestic **passenger car production** topped the five million mark. At the same time, the production volume of 5.35 million passenger cars was the highest ever in Germany. The same was true of commercial vehicle production, which exceeded the 400,000 mark for the first time.

Various trends can be recognised within **commercial vehicle production**: while the production of light commercial vehicles (up to 6 t) increased by eleven per cent and that of heavy trucks (over 6 t) increased by five per cent, the production of buses fell by twelve per cent as compared to the previous year.

In 2005 a total of 3,795,361 passenger cars produced in Germany were exported. This **export volume** represents another record number in the history of German automotive production.

Of the commercial vehicles produced, 285,237 units were exported.[1]

This puts the export quota in both the passenger car sector and the commercial vehicle sector at 70 per cent.

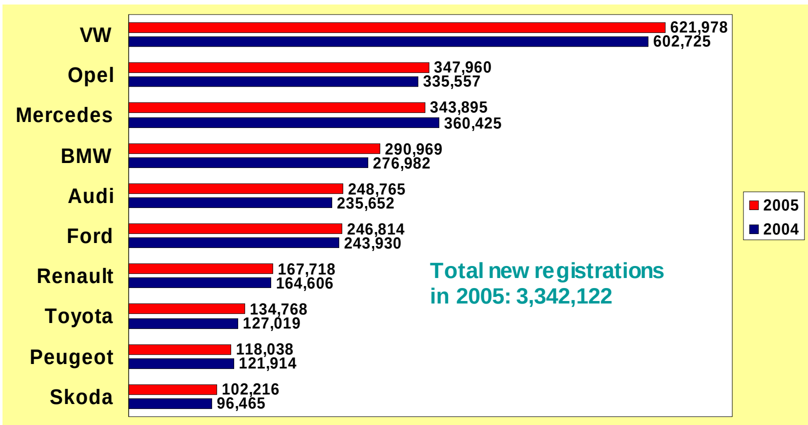
In 2005 the German passenger car market (i.e. the number of **new registrations**) had a volume of 3,342,112 units. This was a year-on-year rise of 2.3 per cent. In comparison to the previous three years, in which the domestic market volume had hovered around a figure of 3.25 million, this level of new registrations in the year 2005 marks a slight recovery. However, the figure did not come anywhere near the record level of new registrations at the end of the 1990s (3.8 million in 1999). Yet the renewed increase in exports compensated for the weakness on the home market.

[1] Exports of commercial vehicles also showed a differentiated picture: exports of light commercial vehicles rose by twelve per cent, and exports of heavy trucks rose by eleven per cent. By contrast, exports of buses were six per cent down on the previous year.

Out of the 3.34 million newly registered passenger cars on the German market, 1,55 million were produced in Germany by German manufacturers, and another 508,000 passenger cars were produced by German corporations abroad, i.e. were either German brands built at foreign locations (e.g. VW in Bratislava and Ford in Genk), or foreign brands owned by German corporations (e.g. Skoda, SEAT, Mini and Smart).

The German market was clearly dominated by German manufacturers. In new registrations the leading brand was once again VW - by a large margin. Second place was taken by Opel for the first time in many years, while Mercedes slipped back to third place.

New Registrations of Passenger Cars in Germany in 2004/2005, by Brand



Source: Federal Bureau of Motor Vehicles and Drivers

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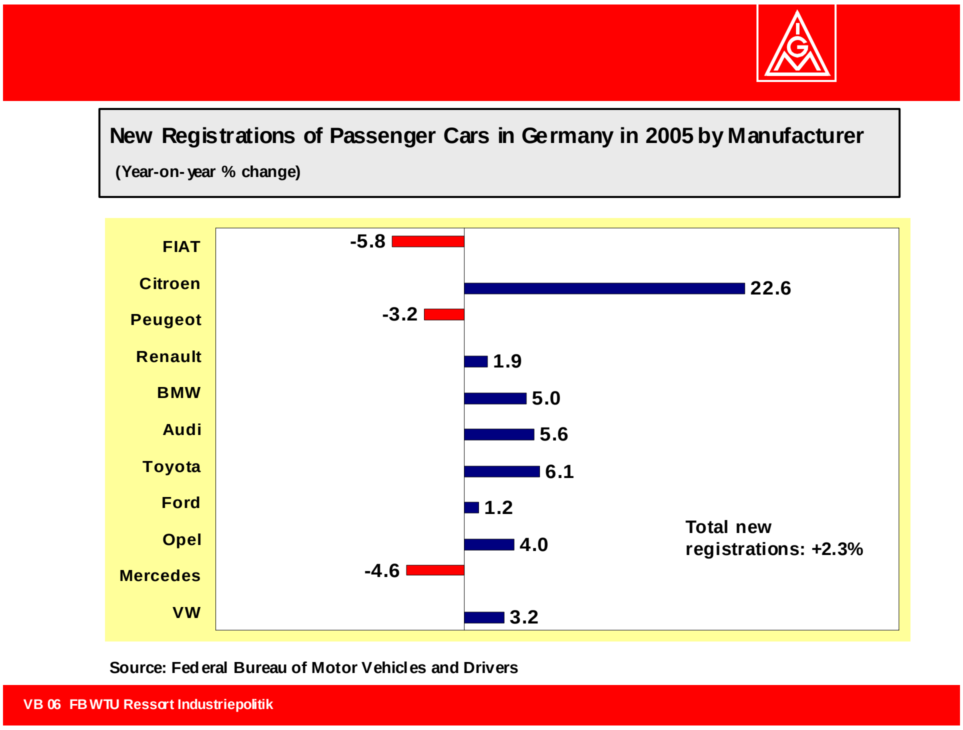
Amongst the ten most popular brands on the German market were the two French car-makers Renault and Peugeot, the Japanese brand Toyota (including Lexus) and Skoda, which belongs to VW.

A look at the development of the German home market in the year 2005 in terms of the **sales of the individual manufacturers** reveals some considerable shifts. As a rule these shifts, i.e. increases or decreases in sales, are associated with the model policy of the manufacturers concerned.

Amongst the larger manufacturers, Fiat, Mercedes and Peugeot in particular suffered clear slumps in sales in the year 2005. In the case of Fiat this was a continuation of the clear fall in sales figures of recent years. This means that Fiat is no longer one of the ten most popular brands on the German market. It was also noticeable that Peugeot suffered collapsing sales figures - the first time that this happened after the good results in the preceding years.

On the other hand some other brands and manufacturers achieved clear increases in sales. However, too much importance should not be attached to the especially large percentage rise in the case of Citroën (+22.6%). In 2005 the company had total sales of 72,472 units, which only put it in the middle of the ranking on the German market.



A somewhat different picture is presented for the German automotive industry (owing to the high proportion of exports) by the overall **trends in the European market** (EU + EFTA[2]) for the year 2005.

On the one hand total sales of passenger cars on the European market went down slightly (-0.7%) in 2005 as compared to 2004, unlike the German internal market. Amongst the larger national markets the only countries to increase apart from Germany were France (+2.7%) and Spain (+0.8%), while the numbers of new registrations on the other larger markets were falling.

On the other hand, the German brands BMW and Audi in particular chalked up clear increases in sales (+11.0% and + 9.0% respectively). Mercedes' sales virtually stagnated, with its drop in sales on the German market compensated for by corresponding rises in other European countries. The increase in sales at Volkswagen came to 3.2 per cent, which was somewhat less than at Toyota (+3.9%), but in absolute figures the rise at Volkswagen of 48,214 units was clearly larger than that at Toyota/Lexus of 30,686 units.

There were noticeable falls in sales at the French manufacturers Renault and PSA (Peugeot/Citroën), which in the preceding years had been feted as the European "shooting stars".

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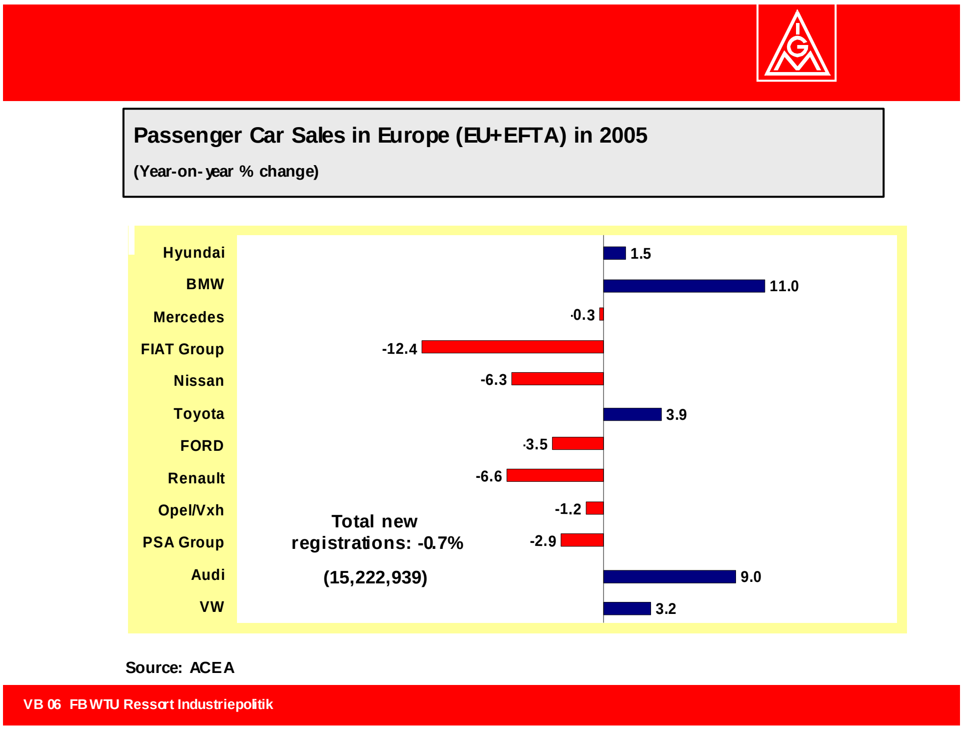
[2] EFTA: Switzerland, Norway and Iceland

The collapse in Fiat's sales of 12.4 per cent points up the massive problems that dogged the development of this corporation in 2005 in particular.

The completely divergent trends in sales at Toyota/Lexus (+3.9%) and Nissan (-6.3%) make it clear that the Japanese manufacturers cannot be seen as a homogeneous entity, but instead are characterised by considerable differences in developments.



Overall, the development in production and sales figures in the year 2005 reveals that against the background of rising production and export figures it is certainly possible to have very different developments at individual manufacturers. The economic situation in the sector and the economic situation in a particular company can differ. Major reasons for this are the model cycles and model policy in general. However, other important factors may be shortfalls in the technical development or the availability of individual equipment components (the most recent example being diesel particulate filters).

Taking the **data from the industrial statistics** as a basis, it becomes apparent that in 2005 the German automotive sector as a whole managed to push up its turnover by 3.8 per cent as compared to the previous year. Overall **turnover** rose from 227.7 billion euro in 2004 to 236.3 billion euro in 2005. German domestic turnover rose by 2.8 per cent to 95.3 billion euro, while turnover generated abroad increased by 4.5 per cent to 141.1 billion euro.

Within the industry, the turnover of the OEMs[3] climbed by 3.4 per cent (+2.2% in Germany; +4.1% abroad), while the turnover of the suppliers[4] rose by 4.5 per cent (+3.4% in Germany; +6.1% abroad).

Production in the industry went up by 3.7 per cent, while **productivity** went up by 4.6 per cent.

Automotive industry in 2005

Year-on-year change in %

	Automotive industry	OEMs	Suppliers
Turnover	**+3.8**	**+3.4**	**+4.5**
Selling prices	**+1.2**	**+1.1**	**+1.3**
Production	**+3.7**	**+3.7**	**+3.6**
Productivity	**+4.6**	**+5.4**	**+3.3**
Workforce	**-0.5**	**-1.1**	**+0.6**
Hours worked per employee	**-0.3**	**-0.2**	**-0.3**
Gross income per hour	**+2.0**	**+2.6**	**+1.7**
Unit labour costs	**-2.6**	**-3.0**	**-1.6**
Wages and salaries as % of turnover	**12.6**	**10.1**	**21.1**

Source: Federal Statistical Office

Despite a slight reduction in individual working hours, this led to a 0.5 per cent fall in the **number of employees**. This means that 2005 was the first year since 1996 to see a drop in the size of the workforce in the automotive industry.

It appears that the industry has passed its peak level of employment. Productivity increases are no longer balanced by corresponding rises in production and/or cuts in working hours. The OEMs recorded a particularly marked increase in productivity of 5.4 per cent.

On the other hand, the rise in gross revenue per hour (+2.0%) was more than compensated for by the considerably stronger growth in

[3] NACE no. 34.1 “Manufacture and assembly of motor vehicles and engines”
[4] NACE no. 34.3 “Manufacture of parts and accessories for motor vehicles and their engines”

productivity. Wage costs also eased off. The **unit labour costs** fell by 2.6 per cent. This drop was much greater at the OEMs (3.0%) than that at the suppliers (1.6%).

On average, **wages and salaries** in the industry only amount to 12.6 per cent of turnover, which indicates highly capital-intensive production. The figure at the OEMs was just under one tenth, i.e. below the average value, whereas at the suppliers wages and salaries equalled slightly more than one fifth of turnover.

2. Trends in the automotive industry in the year 2006

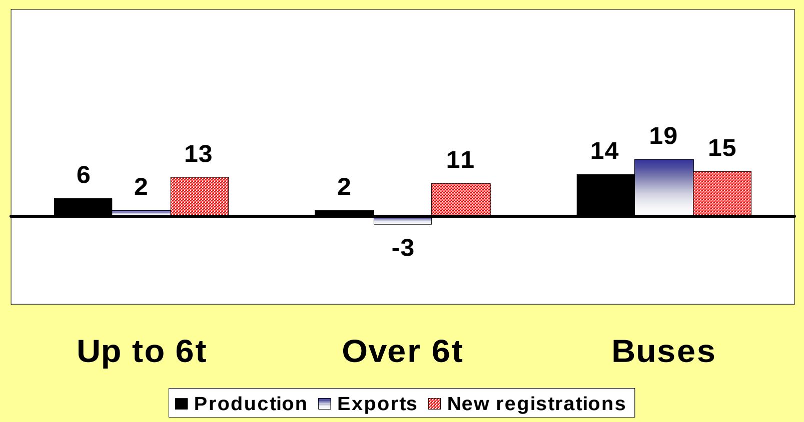
2.1. Production and sales: numbers of vehicles

In the first seven months of the current year 2006, according to the German Association of the Automotive Industry (VDA) the **production of passenger cars** in Germany rose by another two per cent compared to the same period last year, while **passenger car exports** rose by four per cent. The German market only expanded slightly. **New registrations of passenger cars** were up by almost one per cent.

Total domestic **commercial vehicle production** climbed by five per cent and **commercial vehicle exports** remained unchanged in comparison to 2005, since most of the expanding production volume was sold on the home market. **New registrations of commercial vehicles** rose by 14 per cent compared to the first seven months of the previous year.

In the area of commercial vehicle production, once again there were varied trends to be seen - some of which, however, were different from those in the previous year. Production of **light commercial vehicles** increased by nine per cent, and production of **buses** rose by a whole twelve per cent. This means that in bus production it has been possible in the current year to make up for part of the fall seen in 2005. By contrast, the production of **heavier trucks** stagnated at the previous year’s level. Sales problems were not the decisive factors here, but rather the fact that companies could not expand their capacities. The demand for heavier trucks would in fact support further expansion of production.

Commercial Vehicles: Production, German Market & Exports in January-August 2006 (Numbers of units & year-on-year % change)



Source: VDA/Federal Bureau of Motor Vehicles and Drivers

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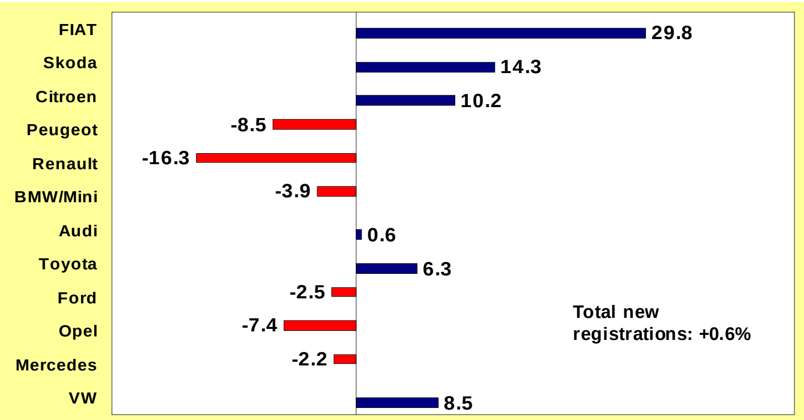
The buoyant situation in the commercial vehicle business and especially the significant increase in sales on the German market are an expression of the clear economic recovery in the area of investment goods as a whole.

Once again there is a range of very different trends at the individual car-makers underlying the overall modest increase in demand for passenger cars in Germany.

New Registrations of Passenger Cars in Germany in January-August 2006 by Manufacturer (Year-on-year % change)



Source: Federal Bureau of Motor Vehicles and Drivers

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The **differences in the sales trends between the individual makes / manufacturers** have been greater this year so far than in the previous year.

In the initial months of 2006 all brands owned by the VW Group managed to push up their sales figures, in some cases quite markedly – for example Skoda's growth of 13.3 per cent and Volkswagen with a rise of 9.4 per cent.[5]

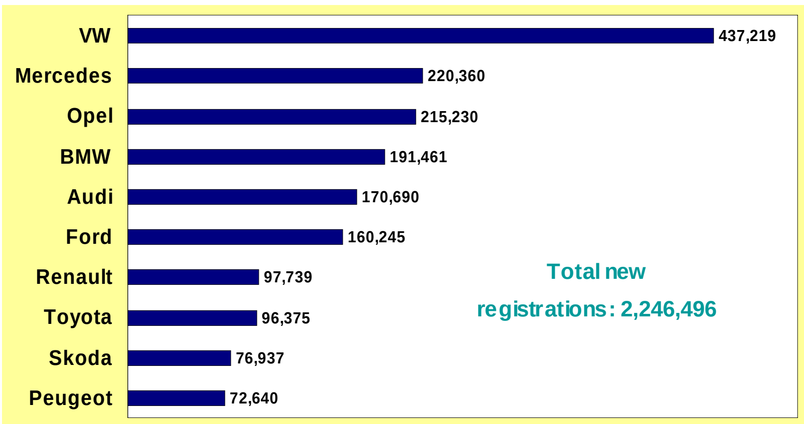
Amongst the French manufacturers there were also noticeable differences. Citroën achieved another considerable jump in sales (+10.3%), while Peugeot and more particularly Renault suffered massive falls in sales (-7.5% and -14.3% respectively).

A similar picture emerges for the Japanese car-makers. Toyota/Lexus continued to increase their sales (+5.7%), as did Mazda (+6.7%), while Nissan and Mitsubishi saw their sales slump (by 4.2% and 6.5% respectively).

Fiat managed to turn its sales around. Its new registrations have increased by almost thirty per cent.

The new fall in sales at Opel (-9.0%) has enabled Mercedes to move up to second place in terms of numbers of registrations, despite suffering a reduction of 1.4 per cent in its own sales.

New Registrations of Passenger Cars in Germany in January-August 2006, by Brand



Source: Federal Bureau of Motor Vehicles and Drivers

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[5] New registrations of the Seat brand on the German market rose by 7.9 per cent.

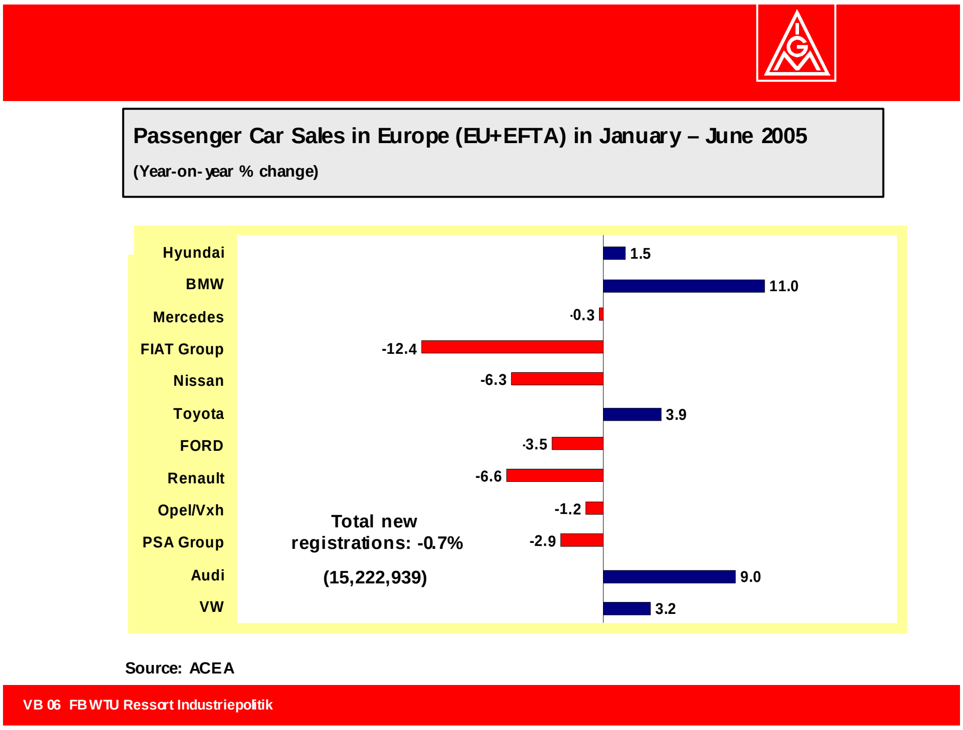
So far in 2006 the **European market** has developed in more or less the same way as the German market.

In the first half of 2006 a total of 8.2 million new passenger cars were registered in Europe (EU + EFTA). This corresponds to a rise of 1.3 per cent compared to the first half-year of 2005. The growth rates in new registrations in Germany (+1.4% in the first half of 2006) and Europe were therefore largely similar.[6]

In many areas sales of the individual brands and manufacturers showed similar development to that on the German domestic market – although there were some significant differences.

And on the European market, too, sales fell at the French manufacturers Renault (-11.4%) and PSA (-2.5%) in the first half of the current year. The Fiat group achieved a rise of 20.1 per cent, which was the highest growth rate of any of the larger producers. Toyota has chalked up a much greater rate of growth in Europe than that seen on the German market (+7.5%). The same is true of Volkswagen (+12.3%). In contrast Nissan saw its total European sales shrink (-14.9%) much more than its sales in Germany.

The most obvious differences between the German domestic market and Europe as a whole appeared at the German manufacturers BMW and Mercedes. Unlike the overall German market, their sales in Europe did not fall, but instead increased considerably. BMW's sales on the European market went up by 5.1 per cent, while Mercedes increased its European sales by 7.1 per cent.



[6] At the time of writing, figures were already available for Germany for the period up to and including July 2006, but only for the first six months of 2006 for Europe.

Looking at the picture country by country, we find that amongst the large sales markets within Europe, Italy is the only other country besides Germany whose market is expanding (+7.9%), which is undoubtedly a factor assisting the unusually high sales increases recorded by the Fiat corporation. By contrast, in all other larger markets - France, Spain and the UK - sales figures have been falling.

2.2. Production - productivity - employment - orders

In the first half-year of 2006 total **production** in the German automotive industry was 3.4 per cent above the level for the same period in 2005.

Production by the vehicle manufacturers rose by 2.8 per cent, i.e. somewhat less than the rise in suppliers' production at 3.9 per cent.

In the first half of 2006 the level of production at the OEMs was 14.3 per cent higher than that in the year 2000, and production amongst the suppliers was 33.7 per cent above the 2000 level. Over the last six years total production in the German automotive industry has risen by 21 per cent, i.e. by somewhat more than one fifth.

The clear increase in production in the first half of 2006 was accompanied by an even stronger rise in **productivity**.

Overall productivity in the automotive industry rose by 6.7 per cent compared to the first half of 2005.

The productivity level exhibited an above-average rise at the OEMs. Their productivity per hour went up by 9.7 per cent compared to the corresponding period last year.

By contrast, at the suppliers the 3.9 per cent rise in productivity was just as great as the increase in production.

The different developments in production and productivity also resulted in a divergence in the change in the **number of hours worked**:

At the vehicle producers the rise in productivity, which by far exceeded the increase in production, led to a clear reduction in the number of hours worked, which fell by 5.7 per cent.

At the suppliers the simultaneous rises in both production and productivity resulted in the number of hours worked remaining almost unchanged compared to the previous year (+0.1%).

Amongst the OEMs, the 2.5 per cent reduction in **working hours per employee** somewhat lessened the negative impact that the falling number of hours worked had on the level of employment, but it was not enough to compensate completely.

The 0.7 per cent increase in individual working hours at the suppliers meant that even though the number of hours worked remained unaltered, there was a drop in the size of the workforce.

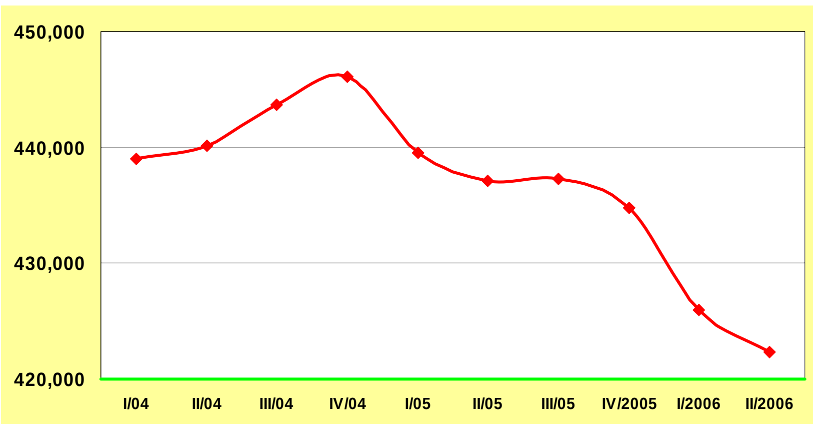
The overall **number of employees** in the automotive industry therefore fell in the first half-year of 2006 by 2.1 per cent compared to the same period last year.

At the **OEMs** the lasting trend of falling employment seen since 2002 is still continuing. This trend has accelerated since the third quarter of 2005. In the first half of 2006 employment at the vehicle manufacturers went down by 3.3 per cent. In the first half of 2006 the number of employees was almost 15,000 lower than in the previous year.

At the **suppliers** the number of employees continued to rise during the course of 2005, although the increase slowed down from each quarter to the next. At the beginning of 2006 there was a reduction in the number of jobs in this sector of the automotive industry too – albeit a less marked one. Jobs have been cut by 0.6 per cent, with the number of employees falling by nearly two thousand in the first half-year of 2006 compared to the corresponding period in 2005.

The trends described above led to a situation in which from mid-2005 onwards it was no longer possible for the shrinkage in the size of the workforce at the vehicle-makers to be balanced out (or even exceeded) by growth in jobs at the suppliers. Since then, employment in the industry as a whole has been falling - with increasing speed. In the first six months of 2006 the level of employment showed a year-on-year fall of more than 16,000.

Current Trends in Employment at OEMs (NACE 34.1)



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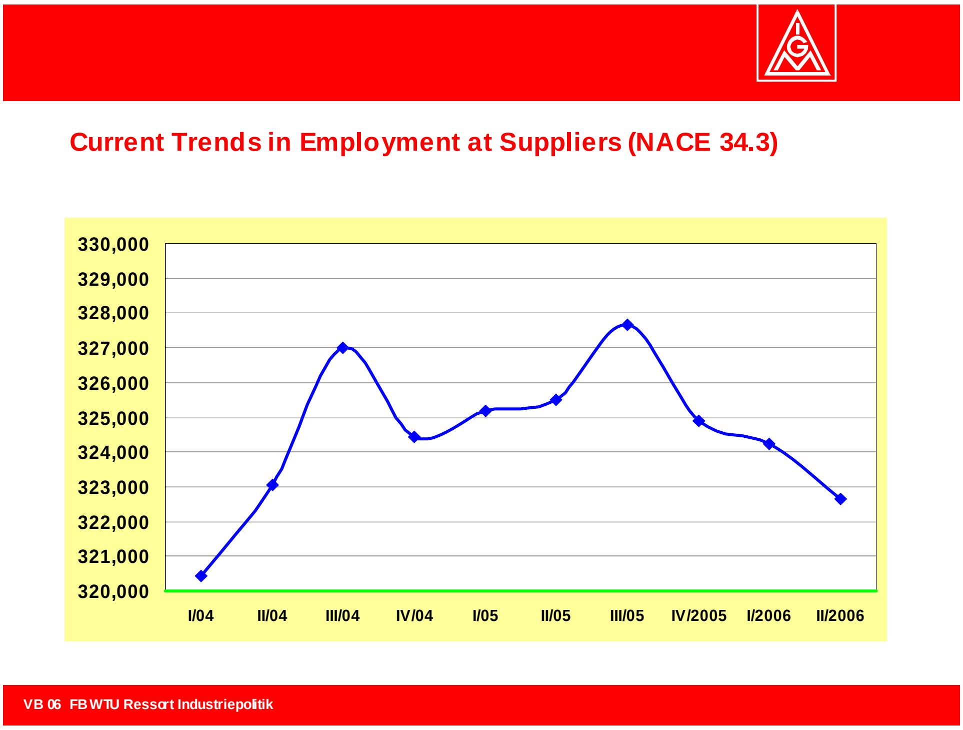


The trends in incoming orders will be important for future development.

Incoming orders showed a marked rise after price adjustment. For the industry as a whole in the first half of 2006 they were 13.7 per cent up on those in the corresponding period in 2005.

While the **incoming orders from abroad** again exhibited above-average growth of 20.6 per cent, **orders from within Germany** only went up slightly (+2.9%).

Especially steep rises were seen in the incoming orders at the OEMs, where they went up by 16.4 per cent. Here, too, growth in incoming orders from Germany was fairly modest, at 1.4 per cent. By contrast orders from other countries rose sharply, by 23.0 per cent.

At the suppliers the total number of incoming orders went up by 6.4 per cent. Here again incoming orders from abroad showed a larger rise (+10.8%) than did those from within Germany. However, the latter rose by 3.1 per cent, which was still much more than the rise in German orders reaching the vehicle manufacturers.

A look at the **levels of incoming orders** shows that overall they have risen both at the vehicle-makers (+37.3%) and at the suppliers (+34.7%) by about the same order of magnitude since the year 2000.

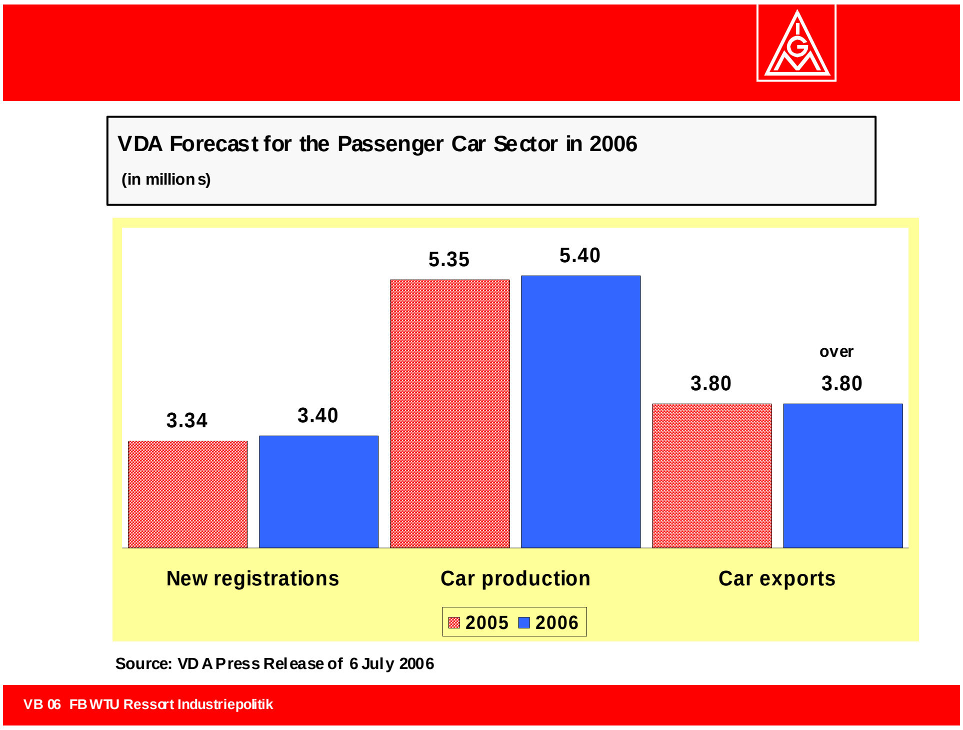
However, there are considerable differences between levels of domestic and foreign orders.

The level of incoming orders for the OEMs from within Germany was only 6.3 per cent higher than that in the year 2000, whereas the level for the suppliers grew by 28.4 per cent. By contrast the level of orders arriving from abroad for the OEMs exceeded the figure from 2000 by 53.8 per cent, and for the suppliers the level was up by 43.7 per cent.

2.3. Forecasts for the year 2006 as a whole

In its current forecast[7] the VDA assumes that over the year 2006 as a whole the number of new registrations of passenger cars will reach 3.4 million. This would be an increase of nearly two per cent compared to the year 2005.

The VDA expects new records in production and exports. According to this scenario, passenger car production should increase to 5.4 million units (+1%) and passenger car exports to more than 3.8 million units.



As yet the VDA has not issued a forecast in figures for commercial vehicles. However it can be seen that here, too, the VDA expects new record values: “Our commercial vehicle companies are quite simply doing extremely well.”[8]

The current general dynamic economic development in Germany and Europe, and especially the fact that the economic recovery in Germany is increasingly supported by demand on the home market, along with the data on production and trends in incoming orders for the automotive industry, all suggest that the VDA’s forecast is a very cautious one.

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[7] See VDA press release of 06 July 2006
[8] Prof. B. Gottschalk, President of the VDA, quoted in the VDA’s press release of 06 July 2006

However it cannot be ruled out that further development both in the economy as a whole and on the industry level could, under certain circumstances, be adversely affected by a series of risk factors. On the one hand this concerns future economic development in the USA and the associated change in the US dollar-euro exchange rate. A weaker USA economy and a clear fall in the value of the US dollar against the euro could significantly hamper developments in the exports of the German automotive industry. On the other hand, there are still considerable risks relating to trends in oil prices, even if the tension in the Middle East has now eased off. Marked increases in the price of oil could have an overall adverse effect on trends in sales, especially in the case of passenger cars.