

The Analysis of the EU's Car Production and Sales Amid the Covid-19

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The automotive industry plays a vital role in the economy of the European Union (EU). The turnover generated by the industry contributes over 7% of EU's GDP. The EU is among the world's biggest producers of motor vehicles supported by its vast private investment in research and development (R&D), investing more than fifty billion euros annually. All major countries in the region are both key producers and consumers. This sector creates 13.8 million direct and indirect jobs to Europeans, which is about 6.1% of total EU employment. 8.5% of EU employment in the manufacturing sector belongs to motor vehicle manufacturing with 2.6 million direct jobs.

The automotive sector was doing well until the Coronavirus (COVID-19) officially became a pandemic. The impact of the pandemic on the society and the global economy is unprecedented, with its significant damages to the automobile industry. The pandemic financially impacted the industry severely, as both production and sales of motor vehicles came to a sudden standstill in the EU as well as other parts of the world. The sector is highly labour and capital intensive. As a result of the pandemic, the jobs of at least 1.1 million Europeans who were working in automotive manufacturing have been affected by factory shutdowns.

The EU car market took a big hit in March this year, especially Italy was hit hard in March, while other markets mainly in April, which is likely to be the worst month in terms of car sales in Europe for at least half a century. Car dealerships in most European countries have been forced to shut their doors for new car sales during the entire month

of April, only being permitted to supply cars already ordered before the lockdowns. Without new sales, many car manufacturers and suppliers faced substantial liquidity issues as the majority of the players in the market are too much dependant on regular refinancing to fund their operations. With the situation within the first half of this year, it has been so challenging for them to get new financing from investors.

The sales in the first quarter of this year were just over 3 million cars, 25% lower than the sales figure in 2019. In terms of sales, March has been always the biggest month of the first quarter, but this year, March recorded the lowest sales (870,300 cars) compared with January and February. The sales in Mar 2020 was fewer than half the number of new vehicles registered in Europe in March 2019. The UK market regularly takes a large share of March sales in Europe every year as buyers in the market defer their new car deliveries to the beginning of the year to claim for new license plates. Therefore, the UK share is often higher than 25% in March while their sales for a whole year is about 18%. This year, UK car sales were reduced to just below 255,000 in March, however, their market share was higher than previous years, with about 30% of the total market as the UK was restively slow to declare the lockdown. At the same time, Italy faced a drastic decline in sales by more than 85%. Italy registered only about 28,300 sales

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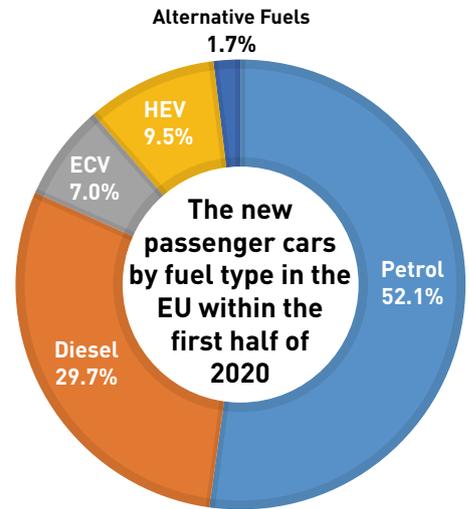
in March 2020. That makes it the largest relative drop among all European markets, including the smaller ones. March sales also collapsed in France (-72.2%) and Spain (-69.3%). Germany recorded a less extreme decline compared with other major players in the market, but still, their new car sales dropped by more than 37%. That gives us the sales figure about 25% of the total market, higher than a normal Mar (19.5%) and a normal annual share (22.8%). In March and the first quarter of the year, Iceland, Finland, and Sweden were the best-performing markets as their governments were less strict in terms of lockdown and movement control order.

Car sales in April tumbled by more than 75% as car dealerships remained closed in most countries in the region while governments fought to hold the spread of coronavirus. May indicated some retrieval, and sales in June at 950,000 units proved that the increasing trend continues; however, the figure was still 22% lower than June 2019.

A glint of optimism for the sector came from France, where sales increased in June by 1.2%, year on year after the government accepted tax incentives to support low-emission vehicle sales at the beginning of the month. The increase in sales in France was exceptional among major markets, where data continue to paint a worrying picture; sales in Spain (-36.7%), Germany (-32.3%), and Italy (-23.1%) continued to be lower than in June 2019.

Interestingly, in Q2 2020, the market share of electrically-chargeable vehicles increased by three times to 7.2% of total EU car sales, compared to a 2.4% share during the same period in 2019. The overall decline in passenger car registrations as a result of the COVID-19 pandemic affected the diesel and petrol segments, in particular, these two segments together still representing more than 80% of car sales in the region. The right pie chart illustrates the new passenger cars by fuel type in the EU within the first half of this year.

Over the first half of the year, the car market in Spain has diminished by more than 50%. Consequently, the government passed its one billion Euro rescue package in June to support the petrochemicals industry. The package is expected to create new demands in the sector, as it includes some grants for consumers to buy vehicles. Italy's sales over the first half of 2020 shrank by more than 46% while the government is considering a rescue package for the sector as well. Sales in France and Germany reduced around 39% and 35%, respectively.



As a result of the drastic decline in sales to date, the implementation of purchase incentives and other financial schemes are vitals all over the EU to generate much-needed demand for new cars. The necessary political and economic support both on the EU, as well as the member state levels, are required to reduce the production losses and unemployment in the near future. ▣

Sources:

1. ACEA, European Automobile Manufacturers Association
2. Automotive Industry Report by the European Commission



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