Global automotive markets 2020

Industry under economic and transformation pressure

The automotive industry is under economic and transformation pressure worldwide. On the one hand, the transition to electric mobility must be shouldered. On the other hand, the poor state of the industry as a result of the US customs wars under President Donald Trump is causing concern. Switching to electro mobility will result in the loss of jobs in the industry, which cannot be compensated for by the growth processes in the coming years. Important value creation in the internal combustion engine sector will be lost bit by bit and replaced by highly automated battery and electric motor production.

By 2030, we expect 124,000 jobs to be lost in Germany among car manufacturers and suppliers. The adjustment will take place in "waves". The first wave will occur around 2022, when the stricter CO_2 values of 95 g/km for new cars will apply. Around 2025, preparations must be made for the even stricter CO_2 values of 60 g/km that will apply in the EU from 2030.

Job losses in the automotive industry in Germany by 2030 (OEM and suppliers)

Jobs 2019:	834,000
Loss due to elimination of ICE:	- 233,000
Gain due to BEV, etc.:	+ 109,000
Netto-effect/Loss of jobs:	- 124,000

ICE : Internal combustion engine
BEV: Battery-Electric Vehicle

For the year 2022, this means that according to our projections, 2.3 million electric cars – i.e. plug-in hybrids and fully electric vehicles – will have to be sold in EU Europe to avoid penalties. In addition, China has a 10 % electric car quota from 2020, which will rise to 12 % by 2022 (2.7 million). In Europe and China together, therefore, 5 million electric cars (plug-in and Battery-Electric Vehicles (BEV)) will have to be sold as early as 2022 to meet the government's CO_2 targets. These considerations illustrate the pressure on the industry.

Weaker economic environment

Figure 1 shows the development of gross domestic product (GDP) in the 15 largest passenger car markets in the world, as presented by the OECD in November 2019. A global GDP increase of 2.9 % is expected for 2020. However, GDP growth is expected to decline in the four largest car markets of China, the USA, Japan and Germany.

GDP growth is an important explanatory factor for the development of car demand. In addition to GDP growth, the negative effects of the US tariff wars, which are of particular importance for the Chinese car market, will be felt in the first few months of the new year. As the larger car markets must expect a decline in economic growth and the effects of the US customs measures will continue to have an impact for several months, even if a negotiated solution is reached in the coming weeks, the global passenger car market as a whole must be expected to decline in 2020.

World car market in reverse in 2020 – recovery in the second half of the year

Figure 2 shows our forecast for the global automotive market in 2020 and the following years up to 2025, according to which the global automotive market will decline by 4.1 million vehicles or 5.0 % compared to 78.8 million cars in 2019. This is the largest decline in the world automotive market in more than twenty years. Even during the period of the global financial crisis, the car market did not collapse as sharply as in 2019, one of the main causes being the tariff wars waged by US President Donald Trump, which drove the Chinese car market into a major recession. In 2020, the decline in global car sales continues, but reaches its lowest point

Fig. 1: GDP development of the 15 largest passenger car markets, source: OECD, Economic Outlook, Nov. 2019

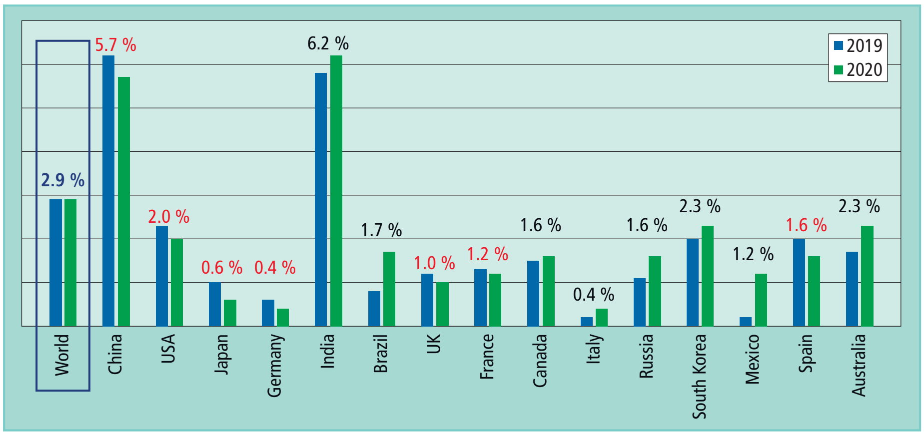
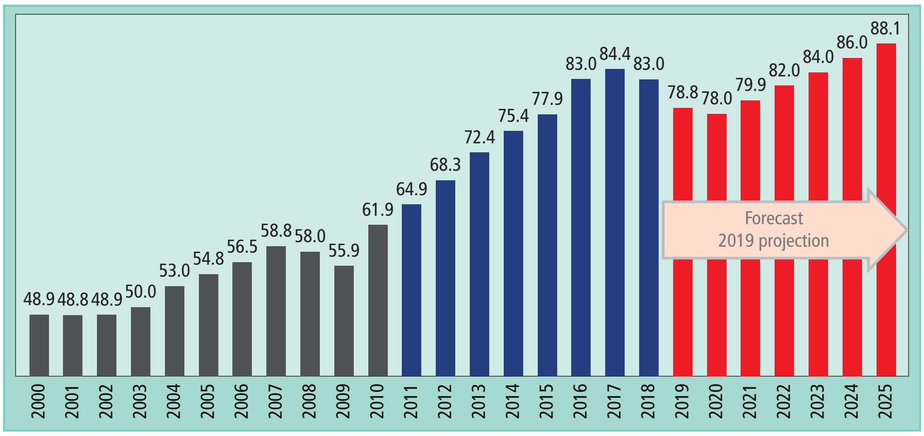


Fig. 2: World passenger car market (in million vehicles sold), source: CAR, University Duisburg-Essen



with 78.0 million sales. According to current estimates, a global recovery can be expected in the second half of 2020.

China will stabilize in 2020 and succeed in continuing its old growth patterns – albeit at a lower level **(fig. 3).** At around 100 passenger cars per 1,000 inhabitants, China's passenger car density is still very low, compared with Germany (567 passenger cars per 1,000 inhabitants) or the USA (750 passenger cars per 1,000 inhabitants). The market is not saturated. Other Asian growth markets such as Vietnam are also developing around China. More than 170,000 new passenger cars will be sold in Vietnam this year. That is an increase of more than 80 %. The boom growth of China from earlier years can also be transferred to smaller Asian markets. The prerequisite for this is always economic growth, i.e. higher GDP growth rates.

	Country	2019	2020	Difference	Difference in %
1	China	20,699	20,388	–310	–1.5%
2	USA	16,871	16,365	–06	–3.0%
3	Japan	4,369	4,282	–87	–2.0%
4	Germany	3,501	3,361	–140	–4.0%
5	India	3,021	3,051	30	1.0%
6	Brazil	2,649	2,675	26	1.0%
7	UK	2,296	2,181	–115	–5.0%
8	France	2,167	2,124	–43	–2.0%
9	Canada	1,908	1,927	19	1.0%
10	Italy	1,891	1,929	38	2.0%
11	Russia	1,797	1,905	108	6.0%
12	South Korea	1,496	1,504	7	0.5%
13	Mexico	1,335	1,348	13	1.0%
14	Spain	1,242	1,217	–25	–2.0%
15	Australia	1,034	1,055	21	2.0%
	World market	**78,828**	**77,962**	**-866**	**-1.1%**

Tab. 1: The development of the top 15 passenger car markets (in 1,000 vehicles), source: CAR, University Duisburg-Essen

Fig. 3: Passenger car market in China (in million vehicles), source: CAR, University Duisburg-Essen

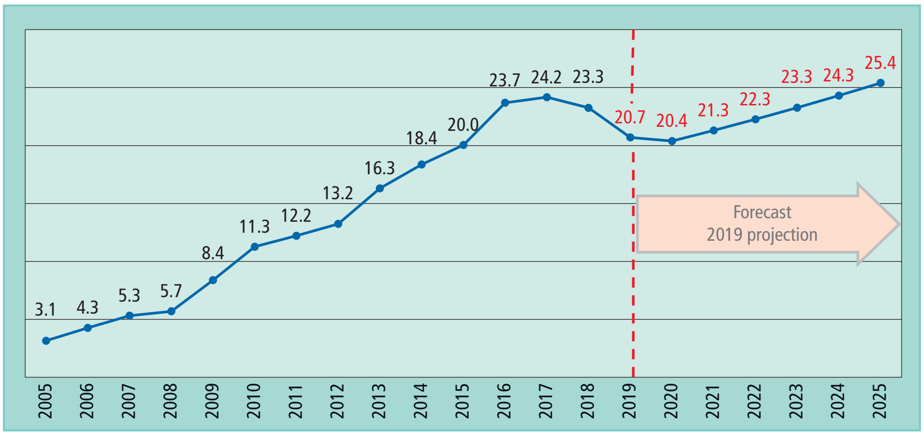
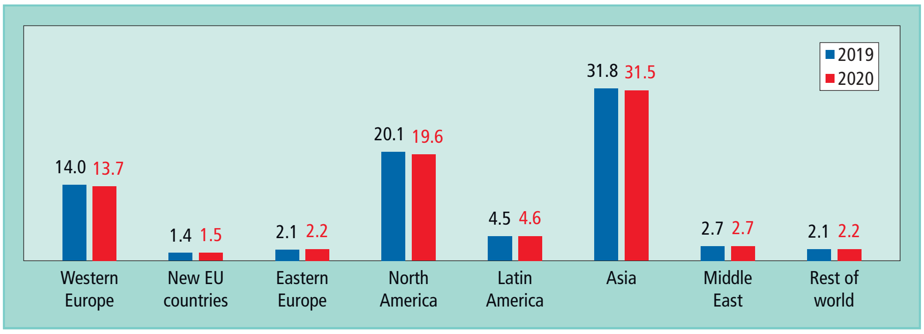


Fig. 4: Development of market regions (in million vehicles)



Germany with a 4 % minus and 3.36 million new registrations in 2020

Table 1 shows that demand in the top 15 automobile markets is predominantly oriented to economic development (GDP). This reflects market-specific characteristics, such as in the German car market. The great wave of high discounts with diesel scrappage schemes has significantly pushed the German car market in recent years. A greater slowdown in demand in Germany can therefore be expected. According to our forecast, the passenger car market in Germany will decline by 4 % to 3.36 million new passenger car registrations in 2020.

Russia among the top 15 with largest growth leap

Among the major markets, Russia will make the largest leap in growth in 2020, with an increase of 6 % and 108,000 additional new car sales. However, Russia remains well below its long-term expected potential of up to 5 million new car sales per year. This is another reason why it makes sense to consider renewing relations with Russia. A reduction in sanctions would give a significant boost to the Russian car market and provide greater external security than some billions of taxpayers' money invested in defence.

China back on the growth track

The Chinese market is of particular importance for the German automotive industry. A solid 40 % of the turnover of the German automotive industry has been generated in China in recent years. The tariff wars waged by US President Donald Trump have caused considerable damage to the German automotive industry, even without punitive tariffs for European vehicle imports to the USA.

Figure 3 shows the expected development of passenger car demand in China. According to our forecast, the Chinese car market will start to grow again from the second half of 2020 onwards and embark on a growth course, albeit at a slower pace. By 2024, demand for passenger cars should return to the level of 2017. China's future growth will be influenced by the electric car. In recent months, however, sales of electric cars in China have fallen year-on-year. This is, however, a temporary phenomenon, since the government subsidy for the purchase of electric cars has been cut back substantially. From 2020 car makers will have to sell their electric cars without subsidies and at the same time meet the e-car quotas. This means that the e-car market in China has only a "transitional" dent.

Growth regions 2020: new EU countries and Latin America

What remains is a view into the market regions as shown in **figure 4.** In Western Europe, passenger car sales will decline slightly in 2020. The major markets of Germany, the UK, France and Spain will be decisive. Here we expect new car sales to decline. The USA will also see a slight decline in 2020, while Mexico and Canada will record slight growth. The decline in Asia is due to the Chinese and Japanese markets.

Conclusion: Transition year 2020

Recovery from the tariff wars takes time. Therefore 2020 will be a year of transition. The good news is that the bottom will be reached in 2020 and then the locomotive China will support the world market, so that the world car industry can return to its growth course. However, the new growth course is characterized by the transformation to the electric car. Therefore shareholders need patience despite the return of car sales. Dividends will remain "moderate" for the next few years. The transformation to the electric car is becoming the dominant subject. Sales need new impulses to implement the necessary sales. Car subscriptions, which cover all costs and risks of the vehicle apart from fuel costs, will become an important sales instrument for this purpose.

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