

The influence of economic crises in automotive industry*****

Summary: Start with 2008 companies are now confronted with a world gone into reverse, where growth is highly uncertain and where prices and financial conditions are highly volatile. This change is visible in many areas. It is visible in lower expectations for revenues and profitability, higher expectations of bankruptcy, and more pessimism on the speed at which the industry can adapt to challenging conditions. More companies expect overcapacity to emerge in key regions, and that sales and production growth will fall in emerging markets in particular. Investment is expected to grow at a slower pace.

Keywords: crises, automotive industry , production, profitability

Rezime: Od početka 2008. godine preduzeća su suočena sa svetskom krizom u kojoj rast vrlo neizvestan, a cene i finansijski uslovi nestabilni. Te su promene vidljive u mnogim oblastima. Skromnija su očekivanja prihoda i profita, veća opasnost od bankrota, a pesimizam dominira u procenama brzine i uspešnosti prilagođavanja industrije na promenjene okolnosti. Preduzeća očekuju zasićenost ključnih regionalnih tržišta i pad prodaje i proizvodnje. Usporiće se rast investicionih ulaganja.

Ključne reči: kriza, industrija vozila, proizvodnja, profit

1. ECONOMIC DOWNTURN

In the second half of 2008, against the backdrop of fierce competitiveness and progress on sustainability, the economic downturn hit the industry. The banking crisis stalled economies; consumers and businesses struggled to

* Article received October 13, 2009, accepted December 22, 2009.

** University of Pitesti, Faculty of Economic Science, nicoleta_isac2004@yahoo.com

*** Bucharest Academy of Economic Studies, Faculty of AgroFood and Environmental Economics

**** Fakultet za poslovne studije, Belgrade

***** This paper forms part of the results of research on project 149011 –“Determining the Dimensions of the Organizational Structure for the Purpose of Quantifying the Influence of the Most Important Contingent Factors of an Enterprise“ financed by the Ministry of science and technological development, Republic of Serbia

access credit. Private individuals held off purchasing new cars and businesses began to fight for survival. In the first six months of 2008, demand for new cars across Europe had dipped a merely 2%, with commercial vehicle sales down by just 0.4%. By the end of the year, markets for all types of vehicles crashed. In the final quarter, car sales fell 19.3%: some member states reported a decline of more than 50% in December alone. Demand for new commercial vehicles across Europe decreased by 24%. Commercial vehicles continued their sharp downturn in the first quarter of 2009. The drop in passenger car registrations recovered somewhat to a still formidable minus 15%, supported by the introduction of fleet renewal incentives in a number of EU member states. Vehicle production, which fell by 20% in the last three months of 2008, is expected to fall a further 25% in 2009 compared to 2007 levels, with commercial vehicles production expected to decline even more. Reduced employment levels, production shut-downs and strains on budgets; these are an inevitable consequence of the sudden decline in demand. The auto industry urged policy makers to recognise the unprecedented scale of the crisis. It called for urgent steps to support an industry upon which so much of what we take for granted relies. The economic consequences of failing to act would be serious. Millions of Europeans rely on vehicle manufacturing – and the associated supply chain - to support their families. Production facilities could close and billions of euros in revenue are threatened by the slowdown. But the crisis threatens more than just economic goals. It could also affect progress towards sustainable mobility. As demand for new cars weakens, fleet renewal slows. While haulage companies struggle to access credit, they are less likely to purchase and run the latest, cleanest generation of commercial vehicles. Pressure on manufacturing budgets, including investments in R&D, is mounting.

2. VEHICLE PRODUCTION

In 2008, 18.4 million vehicles were made in Europe, 7% fewer than the 19.7 million produced in 2007. Of the five major vehicle producing countries, Italy reported the worst decline (-20.3%), followed by the UK (-5.8%) and Germany (-2.8%). Car production fell 7%, from 17.1 to 15.9 million units. Output in Austria fell most dramatically (-37.3%), followed by Italy (-27.6%) and Finland (-25%). New member states, which account for 18% of EU production fared better; Poland and Hungary reported output increases of 20.9% and 18.9% respectively. Van and truck production reflected a dramatic decline in the economy in the final quarter. From January to June 2008, light commercial vehicle production had risen 6.5%; by quarter four, it crashed 7% or 138,481 units. Heavy truck production also rose in quarter two by 15%, only to fall 20% from September to December. Bus and coach production reported growth in output last year, rising 7%, however markets showed signs of faltering by December.

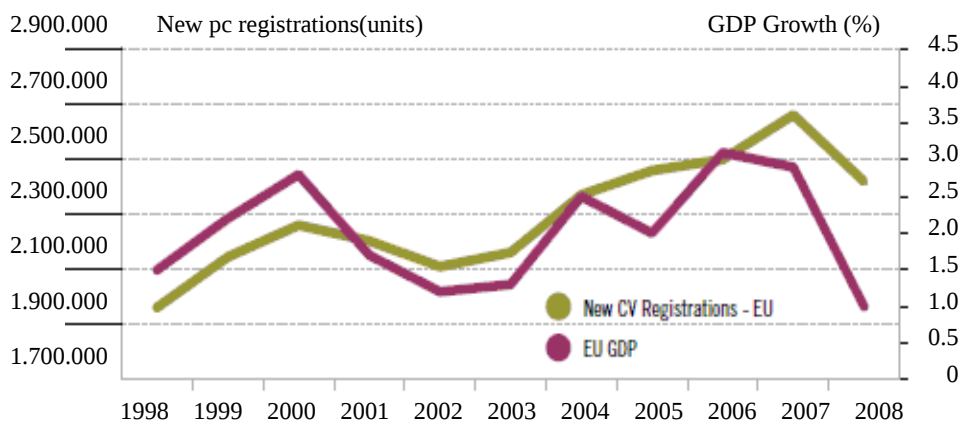


Figure 1.: New commercial vehicle registration and GDP growth in the EU 1998 - 2008 (Source: Eurostat / ACEA / AAA)

3. MARKET DEMAND

In Western Europe, only five countries posted new car growth, Finland (+11.2%), Portugal (+5.7%), Belgium (+2.1%), Luxembourg (+2.0%) and Switzerland (+1.0%). Among the five major markets, Spain reported the steepest fall in demand in its history (-28.1%), while Italy (-13.4%) and the UK (-11.3%) fell by more than 10%. Across Europe, new car demand fell 7.8% to 14.7 million units. In the final quarter it crashed 19.3%. Consumer choices reflected concerns about the economy. Market penetration of small cars was the highest ever at 38.8%; SUVs penetration which had peaked in 2007 at 9.9% fell back to 9%, with the most dramatic fall in France from 7.2 to 4.6%. Average engine size fell to 1706cc, from 1740cc a year earlier, while average power output, which had risen steadily since 1990, fell to 86 from 87 KW. More than half of all new cars sold were diesel models (52.7%). Commercial vehicle registrations were down 9% across Europe, the sharpest downturn since 1993. Truck registrations, down 4% overall, suffered most in new member states (-21.1%). Light commercial vehicle demand (LCVs), up 5.1% in new member states, was dragged down by performance in Western Europe (-12%) to end 10.4% down overall. Bus and coach registrations rose 12.1% over the year, but in December they fell 7.5%. By March 2009, government fleet renewal schemes had been introduced in 11 countries to boost flagging markets and help sustain the transition to 'greener' cars. In Germany, new car sales rose by an encouraging 21.5% in February. Effects were also notable in other markets, such as France, Italy and Slovakia.

4. ECONOMIC BACKGROUND

Table 1.: GDP Growth Forecasts (Source: Eurostat / ACEA / AAA)

	2009	2010
Eurozone	-1.9%	0.4%
EU27	-1.8%	0.5%
US	-0.8%	2.3%
Japan	-1.7%	1.1%

The Eurozone is now officially in recession following two successive quarters of negative growth. The trade deficit is rising and positive employment trends are not reflected in auto manufacturing which has started to report significant job losses. The overall situation in financial markets remains uncertain, despite massive injections of liquidity from governments and central banks. Endorsed in November, the Commission's European Economic Recovery Plan aims to prevent a downward spiral. However, economic forecasts for 2009 have been revised downwards with GDP expected to drop in the Eurozone by 1.9% and in the EU27 by 1.8%. Modest growth of 0.4% and 0.5% is expected in 2010.

As financial costs rise and raw material 50 costs remain volatile, expectations that profitability over the next five years will also remain volatile have risen very sharply. An increase of expectations of 'volatile 40 or unpredictable' profits from 37 percent of respondents in 2007 to 46 percent of respondents in 2008 represents a sharp rise in uncertainty and one that is all the 30 more striking in that the automotive industry relies to an unusual degree on long-range forecasting. The minority of companies predicting rising profits in 2007 (26 percent) has also fallen sharply in 2008, to only 15 percent. The great majority of companies (85 percent) think there will be either no 10 growth in profits, or that profits cannot be predicted over the coming five years. And almost a quarter (24 percent) think profits will actually decline.

Who will suffer most from the expected decline in profitability? This pattern is the same as 2008, with one very significant exception: the sharp decline in expectations for captive finance companies. Expectations of their 20 profitability have collapsed from 76 percent of respondents to only 54 percent, reflecting the liquidity squeeze and the recent unprecedented rise in the cost of wholesale funding.

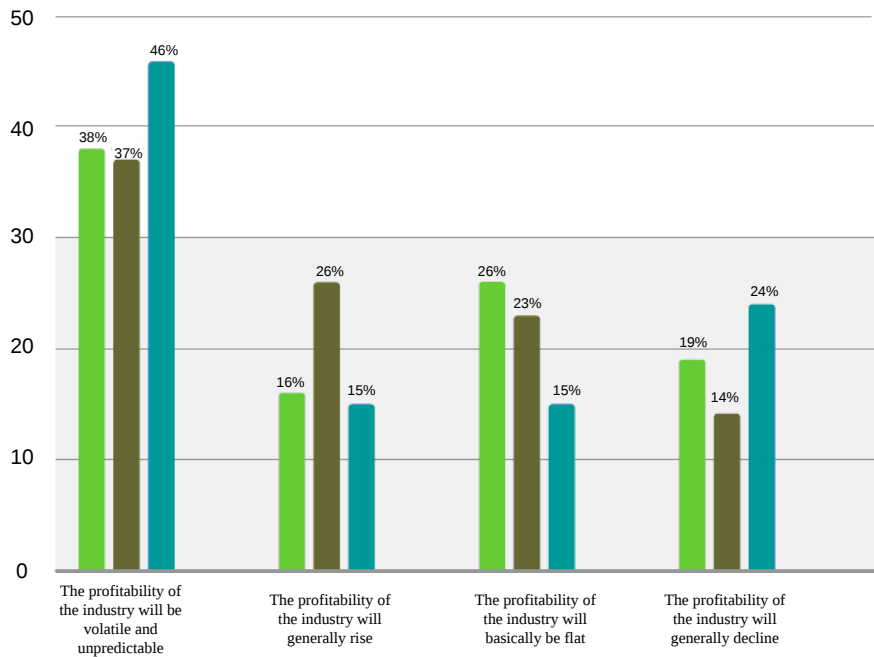


Figure 2: Profitability of the industry between 2006-2008 (Source: KPMG Global Auto Executive Survey 2009)

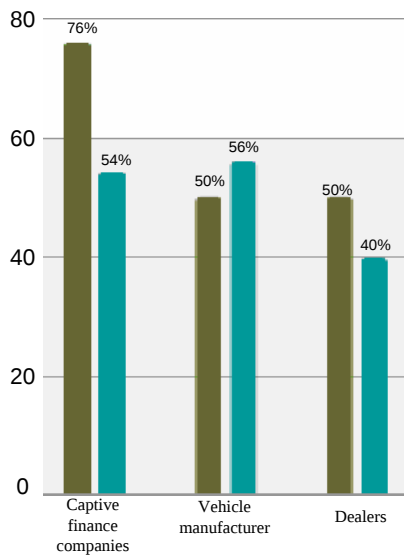


Figure 3.: The most profitable over the next five years of the following types of automotive companies (Source: KPMG Global Auto Executive Survey 2009)

Across industries and also within automotive, supply chain executives told us they struggle with five primary challenges: visibility, risk, cost containment, customer demands and globalization (see Figure 4). Automotive respondents viewed these challenges as impacting their supply chains to a significant or very significant extent.

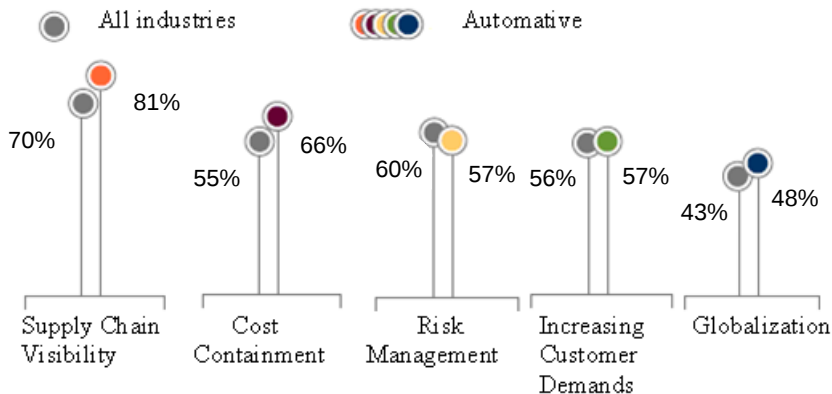


Figure 4.: The top five challeges for the automotive supply chain(Source: The smarter supply chain of the future – automotive industry edition IBM)

Automotive is one of the most global industries – second only to electronics. Indeed, the automotive industry has been at the forefront of establishing global infrastructure.

As other industries begin to catch up, they are struggling with some of the same operational issues automotive supply chain executives have faced for some time: namely, quality and delivery reliability. These two issues are the top challenges across our entire sample and within automotive as well.

As a result, supply chain executives across industries are not achieving the benefits they anticipated from their global supply chains. In fact, only onethird of automotive supply chains report improved overall performance as a result of globalization.

In contrast, nearly 60 percent of top supply chains report that globalization has improved their overall performance. Additionally, they expect to have delivery reliability and quality issues largely under control within the next three years (see Figure 6). To capitalize on their substantial global investments, automotive companies must solve key operational issues.

What are your major challenges in regard to global sourcing and global operations ?

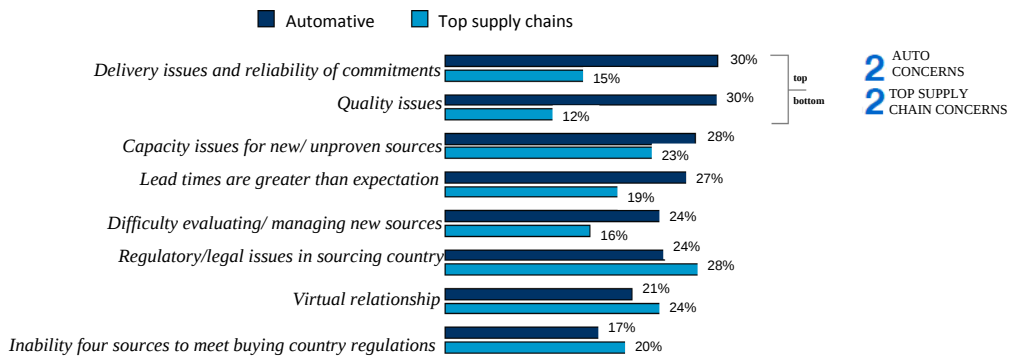


Figure 5.: The future agenda for automotive and top supply chains is dramatically different (Source: The smarter supply chain of the future – automotive industry edition IBM)

5. CONCLUSION

Currently, automotive companies are embroiled in a worldwide industry transition. Nearly everything about their businesses is changing – their products and services, where and how they're sold, the degree of governmental involvement, even the fundamental business models of the industry. At the center of this massive change is the automotive supply chain. For automotive companies, emerging from this period of transition as healthy, vibrant businesses depends in large part on how their supply chains adapt. Greater speed and efficiency will help, but won't be enough. Automotive supply chains need fact-based intelligence to predict which future scenarios are most likely to occur – and the flexibility to get repositioned before they do. Now more than ever, smart wins.

- Sales and profitability expectations are down sharply.
- More bankruptcies are expected, and with them, a return to intensive restructuring.
- Costs will have to be cut, which in turn means that process innovation will have to intensify.
- Customers will become more discriminating, and more concerned with total cost of ownership.

The automotive industry is clearly facing an unprecedented crisis – a crisis that companies fully expect will reshape the industry. But even amid crisis conditions, the long-term concerns of automotive companies remain strikingly stable: developing and leveraging technology in an era of gradual but inexorable shift away from oil dependence. One of the lessons of the 2009 survey is that

companies that manage that shift successfully are likely to be the industry leaders of the future.

Companies also see great opportunities in new technologies –particularly alternative fuel efficiency technologies. It is remarkable that despite the fall in oil prices during late 2008, companies have actually increased their sales expectations for hybrid and alternative propulsion vehicle – a result that reflects the fact oil prices remain historically high.

BIBLIOGRAPHY

1. European automobile industry report - european automobile manufacturers association 09/10;
2. Momentum: KPMG's Global Auto Executive Survey 2009 Industry concerns and expectations 2009-2013
3. The Smarter Supply Chain of the Future: IBM Global Chief Supply Chain Officer Study." IBM Institute for Business Value. January 2009.
4. The Enterprise of the Future: IBM Global CEO Study, Automotive Industry Edition." IBM Institute for Business Value. December 2008.
5. http://www-935.ibm.com/services/us/gbs/bus/pdf/gbe03122-usen_autoceo.pdf
6. <http://www.ibm.com/supplychainstudy>
7. www.acea.be
8. www.ibm.com