

**TREND WATCH**

**Global Sales: How Low Will They Go?**

By Henner Lehne, Director, Global Vehicle Sales Forecast



For the automotive industry, the current global financial crisis is resulting in a continuous stream of bad news. New updates from OEMs and suppliers on upcoming production cuts and possible layoffs are published seemingly every day and leading economists try to counterbid each other on who is drawing the darkest scenario for 2009.

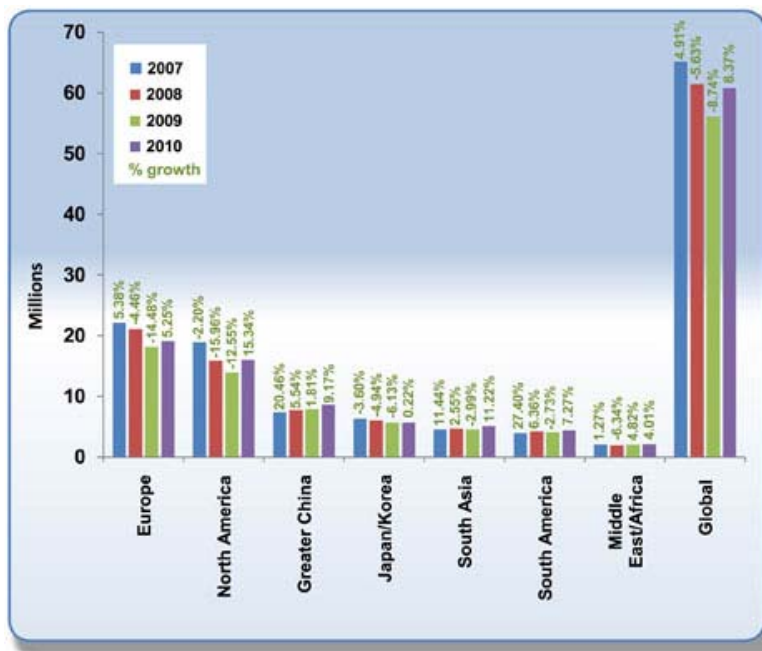
Furthermore, the uncertain future of the Detroit 3, symbolizing the struggling automotive industry, is now adding to this global crisis. Even though the situation in Detroit might be perceived from outsiders as a North American problem, in reality it goes far beyond that and affects every economy, with a stake in the automotive supply chain.

There are two intertwined main factors: Limitation of credit for the industry and weak new vehicle sales demand. Due to weak sales demand, a negative outlook for 2009 and the general struggles the banks are facing, the availability of credit for the automotive industry is very limited. That results in liquidity problems for a large number of companies. These liquidity problems are perceived as risk factors by consumers. These factors as well as consumers' general pessimistic outlook for 2009 and their personal limitations in credit availability are resulting in purchase hesitations, delays or even cancellations.

The questions CSM analyzes now are: How low will sales volume go? When will we start to see a recovery? And what could be the effects on the industry as we know it today?

2008 finished with a global new light vehicle sales volume of about 61.5 million units, which is a decrease of 5.63% in relation to 2007. This year a further decrease of 8.74% is forecast, resulting in global new light vehicle demand of 56.1 million units. Key markets like the US and Western Europe are posting declines, while former major boom areas like the BRICs are suffering. With that volume prediction, the global automotive market is back to the sales level achieved in 2004. In the same time period, more than 19 million units of production capacity has been added, which is now leading to the devastating situation the OEMs and suppliers are facing today.

Can global sales volume for 2010 go even lower than 2009? From CSM's point of view, that is very unlikely. Key economic indicators in the main regions and built-up replacement demand indicate that the free fall of the markets will reach its lowest point in 2009 and that a modest recovery will come by 2010, resulting in 60.8 million new light vehicle sales.



Reviewing the markets in detail shows that the two most critical regions are Europe and North America. European sales slip heavily in 2009, mainly due to volume decreases posted by the Big 5 in Western Europe and a struggling Russian market.

European GDP growth will fall in 2009 in key markets and there is ongoing uncertainty regarding CO2 taxation by the European Committee, causing potential new car buyers to delay

purchases. Russia, the former performance contributor, will also decrease its volume by 11% in 2009 and is not forecast to gain significant speed before 2011. The European region will post a major drop in 2009 of close to 3 million units. This drop adds to the already witnessed decrease of about 900,000 units in 2008. In total, Europe will lose 4 million units of new vehicle sales from 2007-2009 and achieve a total sales volume of only 18.1 million units in 2009, bringing volumes equal to the level reached in 2002. For 2010 a slight recovery of 5.25% is forecast, resulting in an overall new light vehicle sales volume of 19.1 million units.

The North American situation is not much different, except that the largest volume drop occurred from 2007 to 2008. In 2008 the market dropped by about 3 million units, resulting in a total light vehicle sales volume of 15.9 million units. For 2009 a further drop of about 2 million units is forecast, leading to an overall regional volume of 13.8 million units.

The disastrous performance of the US new vehicle sales market is responsible for the region's overall condition. This year the US is forecast to achieve 11.5 million new vehicle sales, which is the lowest result since 1982. Opposite of that, unemployment could rise to 10%, its highest level since 1982. Moreover, the lack of confidence in personal finances and increased unemployment will lead to consumer sentiment hitting a 20-year low. Increased down payment requirements for purchasing new vehicles are also playing a role in causing lower replacement demand in the short term.

A slow recovery is expected after 2009 as credit loosens, although banks will still remain cautious. For 2010 a sales volume of 13.6 million units is forecast for the US. The whole North American region has a demand projection of 16 million new light vehicles.

Japan, Korea, South Asia and South America will all post negative growth rates this year while Middle East/Africa and China will continue to grow in 2009, but at a much slower rate than originally anticipated.

What is the result of this global demand crisis in 2009? The industry will face dramatic changes. Some, especially suppliers, will not survive the upcoming year without external help. It is never good to speculate about job cuts and bankruptcies, but in this case it will be inevitable that a consolidation process will take place. Companies who did not run blind into this crisis and used the good times to prepare for the bad could profit from this upcoming challenge, as the level of competition will be lower in the years following 2009. The upcoming upswing will enable the survivors to take higher margins as competition decreases. The OEMs, on the other hand, will face a more consolidated and restructured supply base, which in many cases will not allow them to interact with the suppliers the way they used to as recently as one year ago.

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