

APRIL 2018

AUTOROLA INDICATA MARKET TRENDS



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impacts European OEMs



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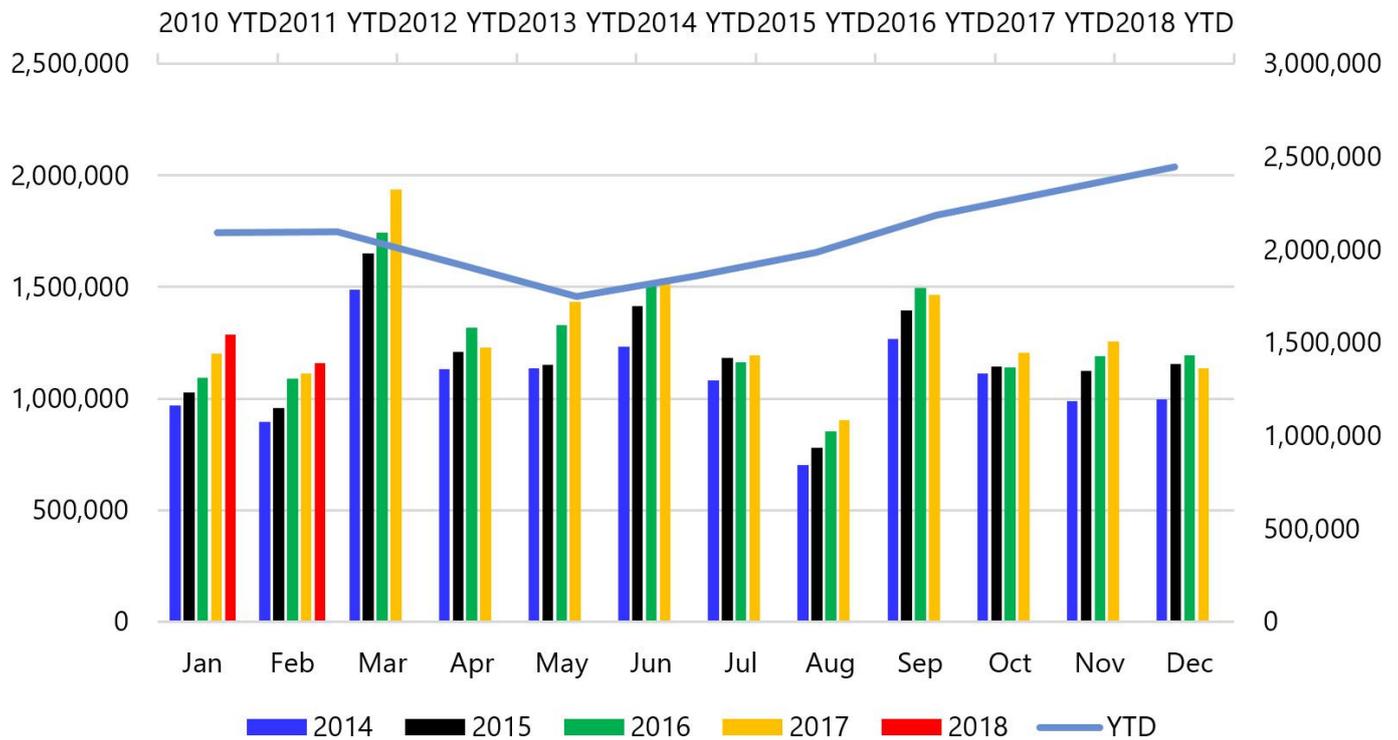
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PASSENGER CAR SALES UP

PASSENGER CAR SALES UP 5.5% TO END OF FEBRUARY BUT TUMBLE IN MARCH

By the end of February new car sales across the 28-member states of the EU (EU28) and the 3 European Free Trade Association countries of Norway, Switzerland and Iceland (EFTA3) were up 5.8%. But, despite strong growth in the first two months we did say in last month's Autorola Indicata Market Trends (AIM Trends) newsletter that a slowdown was on the cards.

Whilst there is some headroom for natural sales growth the current economic environment means we are still looking at full-year sales only topping out around 2.6% above 2017 levels.

The big five car markets of Germany, the UK, France, Italy and Spain made up 72.4% of total new car sales in 2017 but in March of this year only the third and fifth-placed markets of France and Spain saw any growth, rising 2.2% and 2.1% respectively, despite fewer selling days in the month.

UK new car sales, which fell by 15.7% in March 2018, was an inevitable consequence of the new car tax hike in April 2017 which saw March 2017 sales jump by 8.4% as buyers pulled forward their orders from April.

While it remains too early to tell this subsequent drop in April 2017 needs to be remembered when we see the April 2018 results.

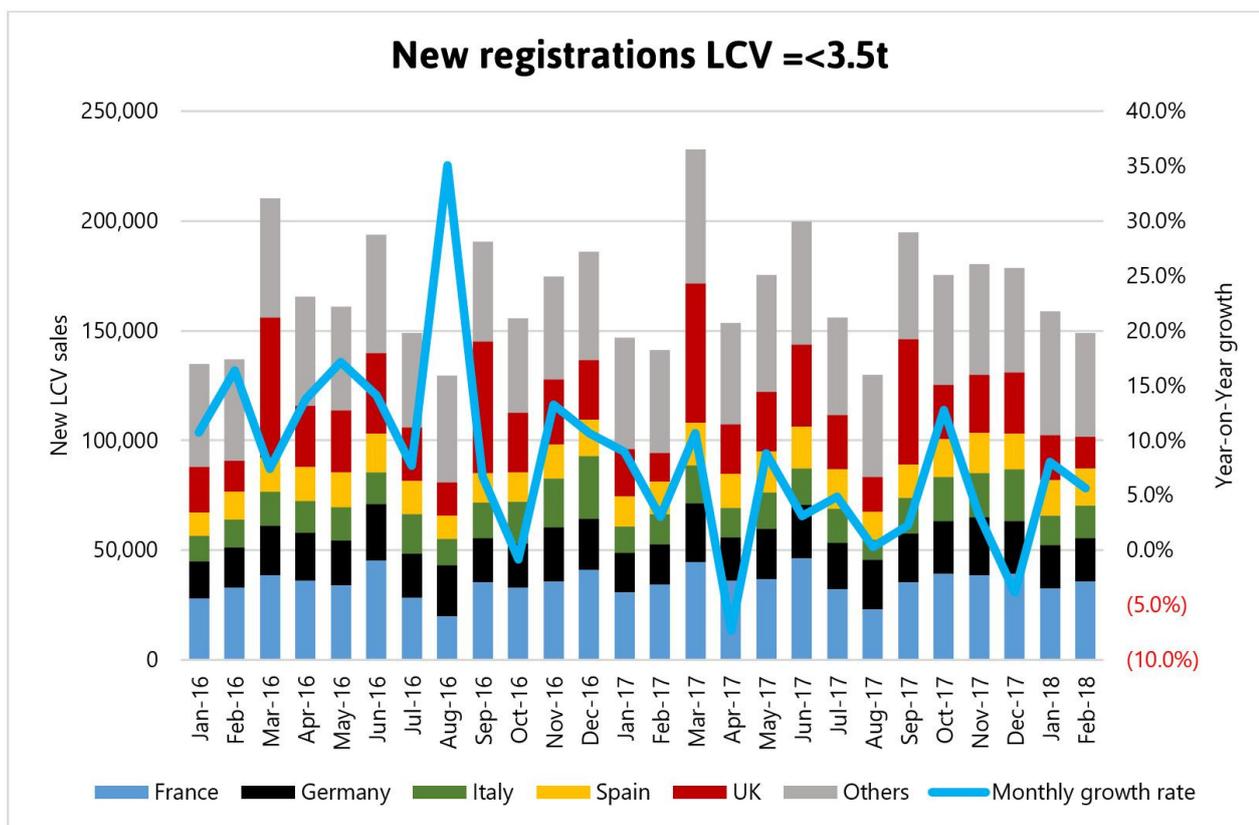
Whilst there were two less sales days in Germany and one less in Italy, the respective drops of 3.4% and 5.7% indicate a deeper underlying problem.

Despite the 4% year-to-date rise in Germany being the best Quarter 1 result since 2000, both countries have had, or in Italy's case continues to have, problems in forming a stable government after their general elections.

The political and media coverage of diesel has also been very damaging to the industry and with threats of city bans on diesel, which could even be extended to petrol vehicles in the future, some consumers are thinking twice about splashing out on a new car at this time.

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LCV SALES BOUNCE BACK IN 2018



Light Commercial Vehicle (LCV) sales recovered from the December 2017 drop, as the EU28 and EFTA3 region rose 8.1% in January and 5.6% in February 2018.

Light Commercial Vehicle (LCV) sales recovered from the December 2017 drop, as the EU28 and EFTA3 region rose 8.1% in January and 5.6% in February 2018. This puts the region up 6.9% year-to-date but as we have seen in the passenger car market the strong January has already been followed by February LCV sales easing back a little.

Europe's largest LCV market, France, saw a 5.8% rise in January fall back to a more modest 3.5% increase in February, whilst in Germany LCV sales went from a 9.2% increase in January to 8.8% the following month. But the biggest drop was in Italy where the economic and political uncertainty resulted in the rate of growth slowing from 14.6% at the start of the year to just 6% a month later. By contrast Spain saw an uplift as sales rose from an impressive 16.1% growth in January to 18.1% in February as the strengthening economy keeps the market on track for high teen LCV growth rates for the rest of 2018.

Whilst the UK turned a January decline of 4.2% into a rise of 6.4% the following month, the UK's automotive industry body the Society of Motor Manufacturers and Traders (SMMT) has confirmed March saw LCV sales drop by 5.6% putting the UK down 3.7% for the whole of the first quarter.

LCV sales are so dependent on industrial confidence and GDP we are likely to continue to see this divergence of results not just across Europe as a whole but even between the more closely aligned euro zone as we move through 2018.

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DIESEL SALES

DIESEL SALES CONTINUES DOWNWARD SPIRAL

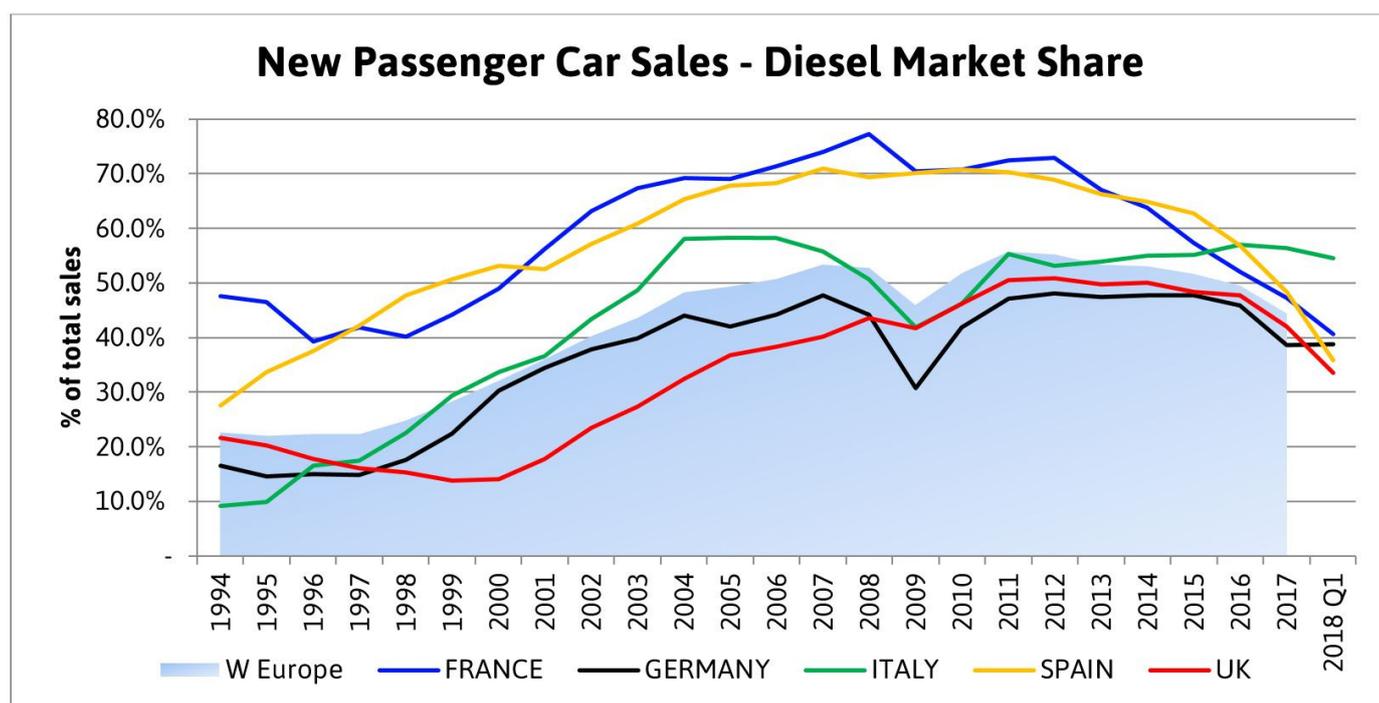
Despite many reports of diesel market share falling since the VW diesel emission testing story hit the news in September 2015, the reality is diesel sales started to wane as early as 2011 as the reality of owning a diesel car with a diesel particulate filter resulted in buyers having to reconsider the right fuel type for their typical journeys.

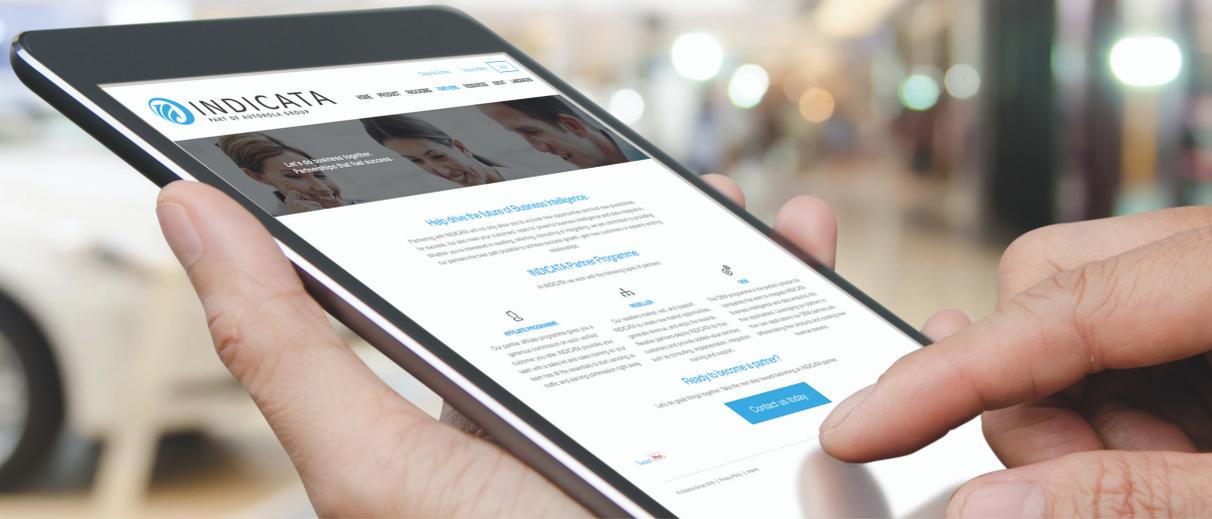
According to the latest data from the ACEA.be website, all Western European countries saw diesel market share drop in 2017 but even as recently as 2016 we saw diesel market share still increasing in Denmark up 5 percentage points, Italy up 1.8p.p. and Switzerland increase by 0.9p.p.

That said there is no doubt that diesel's glory days are over as its market share in Spain and France have already fallen to its lowest levels since the 1990s and across the whole of Western Europe we may see the total diesel market share back to the circa 32% pre-tax incentive levels of the start of this century within the next 18 months.

The quandary is at what point will manufacturers decide that demand in India and falling demand in Europe no longer makes further investment in the powertrain viable? Added to that issue is that with most lost new diesel sales being substituted by petrol car sales when will the rise in CO2 levels result in yet another media and legislative knee-jerk reaction and what will it be?

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MARKET DAYS' SUPPLY DATA

BY INDICATA

Market days supply - market demand and supply factor
European used car market

Legend
Over Market Average
Market Average
Under Market Average



Supply and demand are the two main drivers behind new and used car sales and used car values therefore Indicata's Market days' supply factor which looks at the change in demand for a vehicle brand is a key strategic tool to ensuring you keep ahead of the market.

Based on data across 13 European countries the chart below provides an example of the 12-month period from 2016-2017. Using the product, you can drill down from brand, makes and models enabling you to compare and contrast performance or just trend a specific make or model across time.

By ranking from the best performing at the top through the average performance and down to the worst performing at the bottom, it provides you with all you need to know about what is enjoying healthy demand and where things need to change, maybe a model line-up in need of refreshment or some bold new design and technology.

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INDICATA HELPING TO BOOST DEALER'S USED CAR SALES

As an industry we can sometimes think of each part from manufacturing, to wholesaling, through to retailing and even financing and insurance as totally diverse processes and as such ideas which are developed for one part of the industry fail to get picked up by other parts despite their being very strong commercial benefits to doing so.

The previously mentioned Market day's report is such an example which is breaking that mould as Fred Coupe Nissan, a family owned dealership in the north of England has been piloting Indicata's used vehicle management and demand system and seen it deliver the "competitive advantage that we need to sell more used cars" according to Simon Davis, Fred Coupe's sales manager.

The need to track market place trends has never been more important in a world where consumers are often more informed than the retailer.

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GERMAN GOVERNMENT CONSIDER PART FUNDING A DIESEL RETROFIT TO AVOID CITY BANS

The German government under Angela Merkel has repeatedly sought to mitigate any potential damage to owners of diesel cars and this approach looks set to continue.

According to a recent report in Der Spiegel the German Federal government is looking at plans to create a multi-billion-euro fund, jointly funded by the government and vehicle manufacturers, to pay for the retrofitting of diesel SCR catalytic converters to resolve the emissions problems and they hope to avoid driving bans being implemented in places like Munich, Stuttgart and the Rhine-Main region.

According to a spokesperson at the Federal Environment Ministry "We need to retrofit older diesel cars. This is the only way to improve the air quality in the cities and the only way to avoid driving bans and stop the loss in value of diesel engines. It is the task of the Federal Ministry of Transport to implement this."

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DAIMLER AND BMW GROUP MERGE MOBILITY SERVICES

BMW Group and Daimler have decided to merge their mobility services businesses with each taking a 50% stake in the new enterprise.

The move has already seen BMW buying out Sixt from DriveNow and Mercedes-Benz taking over Europcar from Car2Go. As well as these two car sharing businesses the new joint venture also brings together their ride-hailing businesses like mytaxi, Chauffeur Privé, Clever Taxi and Beat, their parking operations of ParkNow and Parkmobile Group/Parkmobile LLC as well as other business including ChargeNow, Digital Charging Solutions moovel and ReachNow.

Whilst the merger is still subject to the relevant competition authorities the move will provide advantages of scale and remove competition in some more niche mobility areas. Whilst the manufacturing businesses will remain totally separate I expect this trend for consolidation around certain parts of the industry like this will become increasingly common in order to share development costs, for example connected car applications for smartphones.

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U.S. ADMINISTRATION CONSIDERS AN ENVIRONMENTAL TRADE BARRIER FOR AUTO IMPORTS

U.S. President Donald Trump has made little secret of his desire to support American carmakers.

A little over a month ago he was threatening to slap a tax on European automotive imports if there was any retaliation against his aluminium and steel import taxes.

I'm assuming he has realised this could quickly escalate into a trade war and backfire so rather than tax the imports he reportedly investigating how to raise an environmental barrier by looking at plans to use existing laws to subject foreign-made vehicles to stiffer emissions tests.

Unlike the Japanese brands who make 70% of their U.S. sold products in North America, European brands only make around 30% of their models over there.

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U.S. AND CHINA TRADE WAR IMPACTS EUROPEAN OEMS

U.S. President Donald Trump's protectionist approach may also backfire on him. According to an article in Reuters BMW is currently the United States' largest vehicle exporter by value quoting Evercore ISI.

Apparently, the BMW Spartanburg factory in South Carolina produces around 18% of all BMWs sold in China and the proposed 25% tax on U.S. car factory exports could see BMW facing a \$965 million impact with Daimler also exposed to a \$765 million hit.

BMW has already shifted production of the X3, which represented 35% of the vehicles going to China, to plants in Rosslyn, South Africa and Shenyang, China. Daimler and Tesla has yet to reveal any plans they have to shift production but with Geely Chairman Li Shufu announcing that he had amassed a 9.7% stake in Daimler, the German car maker now has additional options to support its current deal with state owned BAIC in China.

The trend for globalisation now makes trade discussions far more complex than they once were and President Trump's actions may yet end up not putting America quite as first as he intended.

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RUSSIAN NEW CAR SALES GROW FOR 12 STRAIGHT MONTHS

Switching from the west of the European Union to the east and Russia has often been the cause of celebration and pain for many car manufacturers.

New car sales can rise and fall annually at a rate that the rest of Europe and beyond tends to see only once every eight to ten years. However, after four years of sharply falling sales the trend for the last year has been totally positive with sales rising 14% in March.

Whilst the full year forecast is an increase of 10% to 1.75 million units according to Joerg Schreiber, chairman of the Association of European Businesses (AEB) automobile manufacturers committee, this is still well below the 3 million sales peak achieved in 2012.

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