

**AUTOMOTIVE INDUSTRY CRASHES INTO THE FINANCIAL
CRISIS' WALL**

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Abstract

The financial crisis that affected the entire world economy through every one of its compartments did not avoid the automotive industry. As such all car manufacturers try to reduce their losses in order to resist better on a reducing and highly competitive market.

Keywords: financial crisis, sales figures reduction, losses, first registration tax

JEL Classification: L10, L62, L91

The financial crisis that started in the US is now present in all the world economies. This state of fact was easy to foresee, because the globalization process is so advanced and the national economies tend to become a global one.

The crisis' effects were felt in all economy sectors, especially in the automotive sector, due to the fact that the car industry acts like a barometer for the wealth of the national economy.

In the United States giant car manufacturers General Motors and Chrysler, are on the edge of bankruptcy and they depended on a bailout plan that was supposed to come from the US Congress. Unfortunately, the 14 billion dollars plan was not approved by the US Senate and therefore GM will not be able to make the payments for its part suppliers by the beginning of the next year. In order to make these payments, GM needs a high amount of liquidity which, at the moment, is not available.

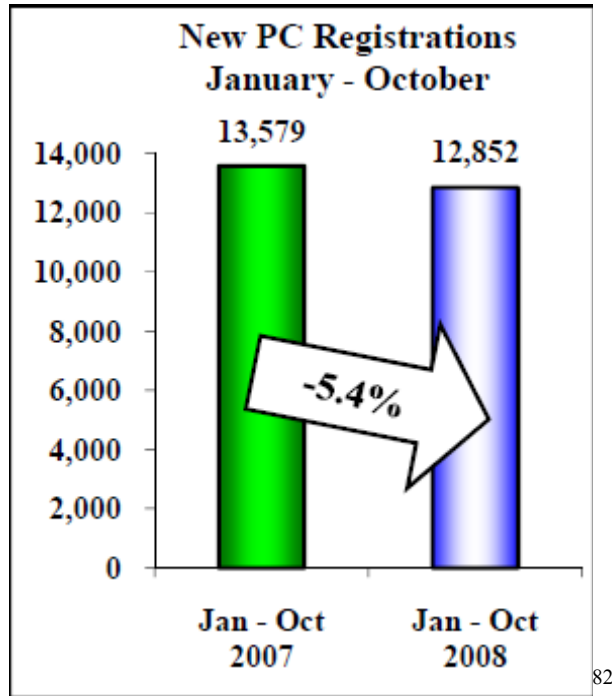
Chrysler is also affected by the Senate's decision, of not approving the plan, after they recently said that without 3 billion dollars they will crash by the end of next year due to the fact that no payments for the part suppliers will be possible.

The third US car manufacturer, Ford, which at the moment does not share the fate of its competitors, announced that if GM and Chrysler will go bankrupt they are affected also.

A total surprise concerning the bailout plan, came from the German car manufacturers' federation (VDA), that produce cars in the USA, through the voice of its president. They said that they are just entitled to receive money through the

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bail-out plan, just as much as the other car manufacturers, because otherwise, the American producers would have an advantage that will affect the competition.



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In Europe the new passenger cars registrations reduced by 14,5% only in October. This reduction follows the down going trend for six months, meaning from summer months.

In the Western Europe markets the new cars registrations dropped 15,5% compared to 2007. With the exception of Austria (which had an increase of 4%), all the other important markets fell. The Irish and the Spanish markets continued their sharply downward trend, plummeting -54.6% and -40.0% respectively in October, and down -18.2% and -23.8% over the first ten months of the year. In Spain, registrations in October were the lowest since 1995. In the UK, demand for new cars was down 23.0%, with cumulative results from January to October showing an 8.8% decline. For the tenth consecutive month, new registrations were down on the Italian market (-18.9%), resulting in a 12.0% drop in the cumulative results. In Germany, October new car registrations were 8.2% lower than the already weak result of last year. In France, the market recorded a 7.4% fall. Ten months into 2008, both Germany and France still have a stable number of newly registered cars compared to 2007, recording a +0.3% and +2.2% change respectively over the year onto October.

⁸² Source: ACEA (European Automobile Manufacturer's Association)

Registrations of new cars in the Eastern Europe countries also declined in October (-3.2%), with cumulative results holding grounds at a 2.5% plus over the first ten months of the year. The Polish market expanded in October (+12.3%), as well as from January to October (+9.0%), consolidating its position as the largest market in the region. Romania, despite a 10.6% fall in October remained the second biggest market.

	October '08	October '07	% Chg 08/07	Jan - Oct '08	Jan - Oct '07	% Chg 08/07
AUSTRIA	25,992	25,003	+4.0	258,149	256,544	+0.6
BELGIUM	42,998	46,150	-6.8	483,729	464,752	+4.1
DENMARK	11,327	14,533	-22.1	133,219	133,645	-0.3
FINLAND	10,161	11,079	-8.3	128,714	119,767	+7.5
FRANCE	174,939	188,877	-7.4	1,750,703	1,712,238	+2.2
GERMANY	258,814	281,845	-8.2	2,630,287	2,622,337	+0.3
GREECE	19,666	21,088	-6.7	245,902	249,403	-1.4
IRELAND	1,748	3,849	-54.6	150,790	184,394	-18.2
ITALY	167,940	207,049	-18.9	1,879,165	2,134,755	-12.0
LUXEMBURG**	4,488	4,688	-4.3	46,172	44,583	+3.6
NETHERLANDS	41,943	42,251	-0.7	463,015	458,425	+1.0
PORTUGAL	14,678	15,679	-6.4	176,851	170,551	+3.7
SPAIN	77,660	129,384	-40.0	1,025,651	1,345,188	-23.8
SWEDEN	22,299	28,839	-22.7	219,210	248,339	-11.7
UNITED KINGDOM	128,352	166,797	-23.0	1,922,771	2,107,312	-8.8
EUROPEAN UNION (EU15)	1,003,005	1,187,111	-15.5	11,514,328	12,252,233	-6.0
ICELAND	181	1,279	-85.8	8,913	13,727	-35.1
NORWAY	8,390	11,646	-28.0	95,846	109,520	-12.5
SWITZERLAND**	23,379	24,329	-3.9	242,519	237,190	+2.2
EFTA	31,950	37,254	-14.2	347,278	360,437	-3.7
EU15+EFTA	1,034,955	1,224,365	-15.5	11,861,606	12,612,670	-6.0
BULGARIA**	3,878	3,908	-0.8	38,202	33,369	+14.5
CZECH REPUBLIC	12,973	12,120	+7.0	121,973	110,829	+10.1
ESTONIA	1,676	2,533	-33.8	22,202	26,669	-16.7
HUNGARY**	12,879	15,341	-16.0	135,321	144,589	-6.4
LATVIA	1,183	2,632	-55.1	17,239	27,673	-37.7
LITHUANIA	1,715	2,271	-24.5	19,480	17,127	+13.7
POLAND**	27,658	24,630	+12.3	263,462	241,689	+9.0
ROMANIA	24,474	27,371	-10.6	252,924	259,114	-2.4
SLOVAKIA	6,775	5,715	+18.5	58,858	49,194	+19.6
SLOVENIA	5,865	5,882	-0.3	61,120	56,071	+9.0
EU (New Members)	99,076	102,403	-3.2	990,781	966,324	+2.5
EUROPEAN UNION*	1,102,081	1,289,514	-14.5	12,505,109	13,218,557	-5.4
TOTAL EUROPE (EU+EFTA)	1,134,031	1,326,768	-14.5	12,852,387	13,578,994	-5.4

If we talk about brands, Volvo, the Swedish car manufacturer owned today by Ford Motor Company, is expecting that this year's global sales will reach 300.000 units, after selling 458.323 cars in 2007.

The last time when sales dropped below 380.000 was in 1996, when Volvo sold 363.322 cars. Since 1999, when Volvo was bought by Ford, brand sales have

⁸³ Source: ACEA (European Automobile Manufacturer's Association)

been at around 400.000 units or higher every year. After these sales figures, Ford announced that they will take Volvo into a serious analysis, thinking even about selling it. In US, the sales went down with 29,7% reaching 68.149 sold units from January to November compared with the same period of the last year. Further more in November the sales in US dropped a massive 46,5%, compared with the last year.

BMW, the German car manufacturer, recorded a massive loss in sales figures. Only in November as a result of the crisis they sold 25% less. Due to the fact that the consumers try to reduce their expenditures as much as possible, the German's Group's (which comprises Mini, Rolls-Royce and, of course, BMW) sales reduced 25,4% and the biggest reduction was recorded by BMW brand, that had 26,2% smaller sales.

In contrast with BMW's problems, Audi, another German manufacturer, announced the intention to promote their image at the Super Bowl (the National Football League games in United States) in 2009 after this year's publicity attracted a record number of visitors to its website. Along with Audi, Hyundai Motor America wants to promote its image at this event, also. On the other hand, GM, regular customer of the sporting event, decided not to promote their image.

In Germany, the biggest car market in Europe, the sales are expected to reduce even more till the will reach the levels recorded after the Fall of the Berlin Wall. The recovery is not expected until 2010.

Another European car manufacturer that experiences the financial crisis effects, is Skoda. The Czech producer, now owned by Volkswagen, announced the reduction of the labor week to 4 days, for the first half of 2009. Skoda's sales in Europe went down with 19% in October and the biggest reduction in sales figures was recorded in the Western Europe. Therefore Skoda will stop the production from December 19th until January 11th, in all the Czech factories reducing its production to 31,000 cars. The manufacturer laid off 1.500 temporary workers were since September, also.

Romania was also affected by this crisis. The national car manufacturer, Dacia, sold 3.710 cars in November, while in October they sold 7.778. As a result of these important reductions, Dacia stopped its production from December 11th 2008 until January 11th 2009, dismissed 620 temporary employees and reduced the investments for 2009 with 100 million €, from 250 million € to 150 million €. In the same time the part suppliers that work with the Romanian manufacturer will close their factories until January 12th 2009.

As a result of this crisis, the Romanian Government announced that the first registration tax will be abolished at least for a year and will apply for the new Euro4 cars that will be purchased. This measure is intended to protect the national car production, so the tax will be increased three times for all second hand imported cars. After Romania waited in vain for a response from the European

Commission regarding this matter, the Prime-Minister decided to apply the modified tax.

This week the Commission said that the tax should be removed for the Euro4 second hand cars that were registered in the EU, from December 15th 2008 until December 31st 2009 also.

Overall, in October the domestic car producers' sales dropped by 39,5% compared to last year.

The car importers also had important losses starting from September with the top in October when the loss was 25,6% compared to the same period of 2007.

In the same time the registrations for second hand cars increased massively in November at 41.087 cars, which is a record⁸⁴, while the new cars registrations reached the lowest level in the last five years. But APIA⁸⁵'s president, said that the imports of second hand cars, did not increase significantly, only the registration volume did. This is the result of a the rumor that the first registration tax will increase its value, so all dealers that sell second hand imports, wanted to register them.

This tax is calculated taking in consideration the engine displacement among other criteria, which means that the bigger the engine is, the bigger the tax will be. So APIA's president said the tax should be applied only to passenger cars, because the commercial vehicles, are often equipped with large engines.

Even Japan is affected by this crisis. As a result the Japanese car manufacturer will reduce their car production in Japan, Europe and United States of America. So the factory in Japan will produce 40.000 cars less every year. Another measure took by Honda to reduce their costs is the withdrawal from the Formula 1 competitions, as the Formula 1 team had an annual budget of 500 million dollars.

Another Japanese manufacturer that is affected is Nissan that was reevaluated by Fitch Ratings and dropped the qualification from BBB+ to A- because is very dependent to the American market.

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⁸⁴ According to Police's official records

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