



To the point!

Cross-Asset- and Strategy-Research

Germany's auto industry looking for ignition

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

September 27, 2024

Simple and pain-free exits from the crisis seem unlikely

The negative headlines from Germany's automotive giants keep rolling in. First, Volkswagen broke a previously sacrosanct taboo: factory closures and layoffs are no longer off the table. Shortly thereafter, two other German giants followed suit. Mercedes-Benz and BMW have lowered their profit forecasts. Deep pessimism reigns in the stock market (see Fig. 1).

A Bouquet of Problems

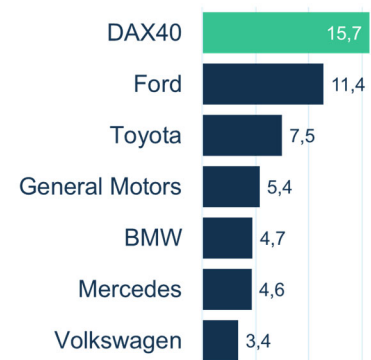
After the diesel scandal, where several German carmakers were found to have manipulated emissions tests, many believed things couldn't get any worse. Now they are. Last week Germany's Minister for Economic Affairs, Robert Habeck, convened an automotive summit. Expecting quick and simple solutions from it would have been naive. The situation is too complex and the problems are too multifaceted:

Decline in Sales. Demand is weak. Car sales in Europe plummeted by 18% in August compared to the previous year. In Germany, the drop was even 28%. And for electric vehicle sales cratered by more than 40%. The rise in interest rates is adding fuel to the fire: nearly half of new car purchases in Germany are financed through credit or leasing. Expensive German cars become less affordable.

Model Lineup. In the world's largest car market, China, Volkswagen and its peers are falling behind due to the rapid shift to e-mobility. While the three major German carmakers still hold about 20% market share for internal combustion engines, a mere 6% of all electric vehicles in China come from their factories. Given that these "Big 3" sell between 30 and 40% of their vehicles in China, this trend severely hampers their profitability.

A drumroll of bad news

Fig. 1: P/E Ratios 2024



Bloomberg (23.9.2024), LBBW Research

Cost Discipline. The cost structure no longer matches the declining revenues. Overcapacity and low utilization rates are driving up the cost per unit. It is unlikely that manufacturers will be able to avoid some painful cuts.

Regulations. As it stands, German carmakers, particularly Volkswagen, are set to miss the European Union's CO₂ fleet targets. To add insult to injury, they could thus face billions in fines as early as next year.

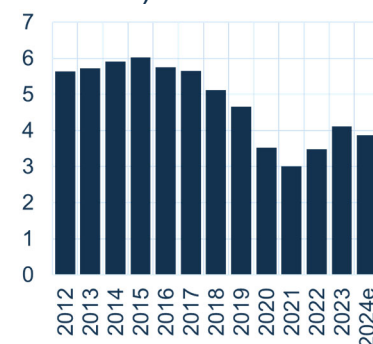
Fickle Subsidy Policies. The German government abruptly ended generous subsidies for electric cars in January 2024, which continues to harm electric vehicle sales to this day.

What is needed now. and what is not

Robert Habeck is right when he says that carmakers must first address their partly self-inflicted problems. How this aligns with his desire to avoid factory closures is unclear. Unfortunately, consolidation seems inevitable. Today, almost a third fewer cars are built in Germany than a decade ago (see Fig. 2). Still, the public sector's haphazard sectoral policies have also contributed to the problem. If the promotion of electric vehicles had been more consistent and the expansion of the charging network more advanced, the e-sales slump might have been less severe. Expensive cash for clunkers incentives are not a suitable solution. Too often they provide windfall gains to well-off households.

The instinctive call for state subsidies does not do justice to the structural nature of the challenge. More creative thinking is needed. More systematic incentives could result from, for example, increasing the fuel tax (and finally abolishing the outdated diesel tax privilege), and using the revenue to aggressively expand the charging infrastructure. This would boost sales of electric vehicles. Now is the time for ingenuity: if you have good ideas beyond old-fashioned subsidies, please send me a message!

Fig. 2: Motor vehicle production in Germany (Million units)



Source: [International Organization of Motor Vehicle Manufacturers, LBBW Research](#). 2024 estimate by LBBW Research based on [VDA](#) half-year data.

Carmakers
made mistakes.
So did the state.

Disclaimer:

This publication is addressed exclusively to recipients in the EU, Switzerland, Liechtenstein and the United Kingdom. This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely information on concrete investment options and for individual investment advice, please contact your investment advisor.

We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Additional Disclaimer for recipients in the United Kingdom: Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.