



By: *Tomorrow's Affairs Staff*

A slight recovery in the car market - good news for buyers; not so much for manufacturers



The 2022 business reports from major car manufacturers have shown a recovery from the crisis years during the COVID-19 pandemic and its economic consequences.

However, the projections for this year have been very cautious. They do not provide much room for optimism, because the crisis factors have not been completely defeated, and new ones are emerging. The automobile industry will not escape these.

After hibernating during the pandemic, demand for new cars has been picking up, which is good news for manufacturers.

But at the same time, the increased demand has caused severe problems because the supply chain problems caused by the pandemic have not yet been overcome and are not likely to be fully resolved during 2023.

At the centre of supply chains bottlenecks are still semiconductors, whose production in 2023 will be faster than during the crisis pandemic years, but their delivery time will still be longer than in the period before 2020.

The new car market will face additional crisis factors this year, primarily higher interest rates that raise prices and reduce demand.

Consumer fears of inflation and recession, which have caused inevitable shrinkage in the market have been highlighted as the main consequences.

“Ongoing supply chain challenges and recessionary fears will result in a cautious build-back for the market. US consumers are hunkering down, and recovery towards pre-pandemic vehicle demand levels feels like a hard sell. Inventory and incentive activity will be key barometers to gauge potential demand destruction”, said Chris Hopson from S&P Global Mobility for CNBC.

Uneven recovery from the crisis

Annual reports show that car markets have been recovering unevenly across regions.

In terms of the number of cars sold, the Asian markets, particularly in India and China, recorded the highest growth, largely due to state subsidies (China).

In Europe, a slight increase in sales of around 1% year-on-year was recorded solely in Germany, while the figures in other countries were lower compared to the previous year.

The decline in sales in Japan is between 5 and 6% compared to the previous year, while the decline in sales in the US has been the largest in the previous year and amounts to 7-8%.

ING estimates that modest demand growth is expected in 2023, of around 3-5% in the three largest car markets: China, the US and Europe.

“We expect China’s demand to be supported by the removal of zero-Covid policies while sales in the US and Europe should reflect the accumulated delayed demand and order books, as production volumes improve with the semiconductor supply bottlenecks finally clearing up and delivery times gradually improving”, ING analysts estimated.

Lower profits and better conditions for customers

The parameters are somewhat different with regard to the financial side of the expected sales growth this year.

Buyers could benefit, due to the expected drop in prices of new cars. Manufacturers will be forced to lower prices in order to boost sales and deliver the profits expected by their shareholders.

Ford, for example, had a disappointing fourth-quarter profit drop of as much as 89% compared to previous year, according to a recently published financial report.

“We left about 2 billion USD of profit on the table due to cost, and especially, to continued supply-chain issues”, said Ford’s CEP Jim Farley on a call with analysts. “To say ‘I’m

frustrated' is an understatement because the year could have been so much more for us at Ford", said Farley.

This year, manufacturers will certainly follow the very sharp price reductions that Tesla implemented in January, lowering the prices of some models by as much as 20%.

Although Tesla's unusual move will primarily affect the electric car market, potential buyers of traditional gasoline and diesel cars have also been hoping for a drop in prices.

Generally, in 2023, an increase in new car sales is expected compared to the previous year.

S&P Global Mobility has been slightly more optimistic than ING and estimated that sales would reach around 83 million cars, which is 5.6% more than the year before. But this slight increase in demand will not have a significant impact on manufacturers' profits.

With this combination of all unfavourable factors, from supply chain problems to the rise of interest rates and growing fear of recession, accompanied with price reductions, the profits for the end of 2023 will have to be more modestly projected.

In such circumstances, buyers will benefit due to lower prices, credit facilities and other incentives, which will have to be shouldered by producers.