The impact of the Ukraine conflict on Europe’s automotive industry

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Introduction
Today’s Experts

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Agenda

- The scenarios and economic impact of the Ukraine conflict
- How are the big European markets coping?
- Eastern European disruption
- Summary
- Q&A
Q&A

- Submit your questions in the box on the right of the screen
- We will attempt to answer as many as possible in the time available
- We will respond to all unanswered questions after the webinar
- Contact details of our experts to follow…
The impact on the automotive industry

- Carmakers are suspending joint ventures in Russia
- Supply-chain issues have already bitten with some carmakers pausing production lines
- Costs of materials essential to vehicle production have risen as supplies out of Russia are halted
Survey

Will the rising oil and gas prices speed up the transition from ICE to EV on new-car markets?

1. Yes 52%
2. No 19%
3. Currently unclear 29%
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Unclear how Ukraine war will evolve

**Weighing negatively**
- Unpredictable Putin
- Indecisive China
- No win/win possible

**Unclear impact**
- Sanctions are a blunt weapon
- European oil/gas embargo
- Russian economy distressed

**Weighing positively**
- Ukrainian resilience
- Europe/NATO stand united (far-reaching sanctions)
- (Vague) signals of diplomatic progress

Base Case: War can be contained/ cold war 2.0
Scenario 2: Full energy embargo/ further sanctions
Scenario 3: Further escalations/ NATO involvement

- Ukraine/Russia are working towards a ceasefire agreement
- Long political process would follow
- Cold war would be back but would bring some stability to relations
Stagflation is likely for 2022 (Base Case)

- Stagflation is a likely outcome for 2022 in base case

- Stagflation means that economic growth is subdued and inflation high
  - Oil and gas prices would remain at an elevated level
  - Cost for logistics and energy will stay high
  - Wheat and other food will be scarce and expensive (risk of famine)
  - Prices for raw materials will rise
  - Prices for energy-intensive products will rise

- Central banks will have to react to this scenario by increasing rates, but not at the previously anticipated level
Monthly inflation rising (example: Euro-Zone)

Monthly Inflation Rates Euro-Zone in % (Y/Y; Nov 2020 – March 2022)

- Nov-20: -0.3
- Mar-21: 0.9
- Mar-22: 0.9

Source: Eurostat
List-price development pointing up

Source: Autovista Group
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Further disruption to fragile automotive supply chains

- BMW and Volkswagen group production affected in western Europe
- Mercedes-Benz has adjusted 'shift plans'
- Neon-gas supply disruption compounds semiconductor shortages
- Ford and Volvo Cars impacted
- Advantageous for Asian manufacturers?
- Chinese EV makers benefit from Russian nickel?
Impact on monthly registrations development in 2022

New-car registrations, Germany, 2022

- Double-digit decline y/y in March
- Current disruption reflected in Q2
- Slower recovery than previously anticipated (semiconductors)
- Net effect: 2022 forecast 146,000 units (5%) lower

Source: KBA/Autovista24
Impact on annual new-car registrations to 2025

New-car registrations, Europe, 2019 to 2025

- Short-term impact in 2022
- Slower recovery than previously anticipated (semiconductors)
- Net effect: 2022 forecast 500,000 units (3.9%) lower
- Registrations displaced into 2023 (335,000 units/2.4% higher)
- 2025: 23% below pre-pandemic level of 2019

Source: ACEA/Autovista24
## Impact on used-car demand and prices

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<thead>
<tr>
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<th>AT</th>
<th>CH</th>
<th>DE</th>
<th>FR</th>
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<tbody>
<tr>
<td>New-car demand</td>
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<td>New-car supply</td>
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<td>New-car prices</td>
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<tr>
<td>Used car demand</td>
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<td>Used car supply</td>
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<tr>
<td>Inflation - cost of living</td>
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<tr>
<td>Net RV effect</td>
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</tbody>
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**RV effect**

- Lower new-car registrations
- Higher new-car list prices
- Higher living costs (pressure on demand for used cars)
- RVs have surged since the COVID-19 pandemic began
- Limited impact on RV developments
- Used-car markets already stabilising/slowing
- Downgrade in UK RVs due to subdued market activity
- Downside risk to RVs: Russia cuts gas supplies

Source: Autovista Group analysis
Monthly Market Update

- Latest RV developments
- Used-car sales, supply and stock days
- Fuel-type splits
- RV Outlook
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Central-East European markets – First impacts

Currencies

First negative impact: local currencies disruption

The local National Banks needed to do interventions.
Base interest rate increased
→ inflation,
→ cost of car financing
Central-East European markets – Inflation / fuel prices

**Inflation**

The inflation highly affected this region

**Fuel prices**

Energy prices including fuel increased dramatically → Living-cost → lower demand on purchasing cars

Source: Autovista Group analysis
Central-East European Markets – New cars

New cars – demand

The demand for new cars is still higher than supply
Poland: new labour tax scheme reduce the demand of purchasing

New price development

There was general price increase mainly from 01/2019. →+16%
Hungary: additional effect → local exchange rate development
**Central-East European Markets – RV trends**

### Economic factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>Cost of living</td>
<td>Inflation / Energy prices increased</td>
</tr>
<tr>
<td></td>
<td>High fuel prices =&gt; low consumptioned cars preferred.</td>
</tr>
<tr>
<td>Car financing</td>
<td>The interest rates increased. Cars are more expensive.</td>
</tr>
</tbody>
</table>

### New cars

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>No change. Except in Poland due the high living cost</td>
</tr>
<tr>
<td>Supply</td>
<td>The challenge is bigger than before. Less new cars.</td>
</tr>
<tr>
<td>List price</td>
<td>Price increase</td>
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### Used cars

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>Demand</td>
<td>New car supply issue vs increasing living cost</td>
</tr>
<tr>
<td>Supply</td>
<td>Used car stock reduced in this region and W-Europe.</td>
</tr>
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**Limited impact on RV developments**

Source: Autovista Group analysis
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Summary

- There are three potential scenarios based on how the Ukraine war will evolve.
- Monthly inflation is on the rise across Europe, with Central-East European countries most affected.
- This is contributing to higher list prices for new vehicles across Europe.
- EV market could benefit from rising oil prices – but this is unlikely to be disruptive.
- Added disruption to fragile supply chains; Impact already felt in March new-car registrations.
- Limited RV impact expected in big European markets as it is already at record levels and living costs jeopardise demand.
- The war has destroyed optimism in the automotive industry in Eastern Europe following hoped recovery from supply-chain issues.
- RV impact will differ in Eastern European markets, but is expected to be less than 1% overall.
Q&A

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Any questions? Ask the team…

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