Central and Eastern Europe Automotive Market

Overview

From its meager origins of only six Western European members in 1956, the European Community has transformed into the European Union (EU), which expanded again from 15 to 25 members on May 1, 2004, with the accession of 10 Central and Eastern European and Mediterranean countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia). Today, the EU is composed of 27 member states, with the addition of Bulgaria and Romania in 2007. Moreover, additional countries are engaged in negotiations and waiting in the wings for membership to include: Turkey, Serbia, and Croatia, with Croatia possibly joining as early as next year, during 2011.

Therefore, the Central and Eastern European (CEE) automotive market represents an evolving region of diverse economies; some with indigenous automotive operations, and most with aspirations for attracting new, or more, automotive foreign direct investment. As many have recently joined the EU, they have also adopted EU economic policies affecting the auto industry, such as the common external tariffs and regulatory type approval. This region is geographically nestled between the EU and the Commonwealth of Independent States (CIS: Russia and the Ukraine), which make it a strategic location for global automotive companies to supply and export products both west and east. The combination of lower costs and cheaper land and labor in the new EU member states appeals to many global automakers, and provides impetus to realign and better integrate their respective European operations. Entry into the EU has also reduced not only tariffs, but value-added tax (VAT) levels on vehicles as well, making them more popular and more affordable for all.

CEE Economy

CEE governments were among the first to react to the recession by clamping down on credit in 2008, which had a huge affect on sales in the region. Car sales for 2009 had the Skoda brand (owned by Volkswagen: VW) dominating the region, with the other VW brands following closely behind. Ford, Fiat, and Renault ranked third, fourth and fifth in the region. Opel, Toyota, Dacia, Hyundai, and Kia ranked behind them, respectively.

Business Monitor International (BMI) has indicated that CEE has a low rate of car ownership compared to Western Europe, and while this implies increased demand in the region, with weak economic conditions and tight credit access in most CEE countries, consumers are likely to favor used cars for the foreseeable future. Moreover, David Di Girolamo, head of JATO Consult, states: "Central and Eastern Europe is not the new car market it once was. The lack of any formal incentive schemes, coupled with rising taxes and more stringent banking requirements, has reduced consumer demand across the region."

For example, the Czech Republic suffered a drop in its overall GDP of 4.1 percent in 2009, and unemployment is on the rise. Moreover, a change in its government in late May 2010 could introduce more changes in order to deal with its widening financial deficit.[1] In Hungary,

[1]BMI, "Industry View: Czech Republic", Q3 2010, May 19, 2010

the economy contracted by 6.3 percent, and growth is not expected until next year. BMI predicts a nearly 11 percent drop in vehicles sales in 2010, as a result of the difficult economy. There is also uncertainty in Hungary because of the incoming government's fiscal policies.[2]

Moreover, as new EU member states, tariff reductions are required annually, and this has resulted in opening many of the CEE markets to imports of cheap second-hand vehicles and has depressed the overall market for new vehicles. It has also increased competition from foreign brands.

Top CEE Automotive Markets[3]

The top five CEE automotive markets in terms of sales and production are: the Czech Republic, Hungary, Poland, Romania, and Slovakia. Over the past few years, as Western Europe has stagnated, the new EU members from the CEE have contributed what little growth there is in the overall European automotive market. However, with the arrival of the world recession, ACEA (the European Automobile Trade Association), reported that overall European new passenger car registrations in 2008 recorded the sharpest decline since 1993, by 7.8% to 14.7 million units. Specifically, Western European demand contracted by 8.4%, while sales in new EU Member states were down 10.7%; the sharpest decline since ACEA started reporting figures for this region in 2004.[4] In an effort to respond to this decline, incentive programs were implemented across many of the Western European countries during 2009, and ACEA reports that overall EU registrations improved to 15.8 million units. However, it was Western European sales that fared better overall than CEE sales given the extensive national fleet renewal and scrappage schemes introduced to counter these downward trends.[5]

In fact, JATO Dynamics, a London-based industry consultancy, reports that vehicle sales in the CEE fell by nearly 30 percent in 2009. Fewer than one million cars were sold as the effects of recession were felt across the region. Only Poland ended the year with flat sales (+0.1 percent). Many markets suffered double digit sales falls, with Latvia (-72.9 percent), Lithuania (-66.2 percent), Estonia (-59.6 percent) and Hungary (-60.0 percent) amongst the worst affected. JATO said the picture was very different from two years ago, when the CEE region was considered the engine of growth in European new car sales.

Moreover, according to ACEA data, 2009 production was at its lowest since 1996. Specifically, total vehicle production in Europe (cars, trucks, buses) decreased by 17.3 percent compared to 2008 and by 23 percent compared to the pre-crisis level of 2007. Passenger car production dropped by 13 percent to 13.4 million units, or the lowest level in fourteen years.

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[2]BMI, "Industry View: Hungary", Q3 2010, May 19, 2010

[3]See ACEA presentations on New EU Member States at: http://www.acea.be/index.php/news/news_detail/acea_event_the_automotive_industry_in_the_new_eu_member_states_key_to_the_e/

[4]http://www.acea.be/index.php/news/news_detail/passenger_cars_european_market_posts_fifteen_year_low_in_2008_78

[5]AID Newsletter, Issue 0919, October 15, 2009, pages 5-6

Truck production dropped to a historic low (-64.0 percent). However, passenger car sales fell by only 1.3 percent in 2009, with demand supported by fleet renewal schemes in 13 EU countries. Critics argue that the scrappage programs will inevitably result in severe market downturns in Western Europe. (Ironically, many of the cars that fit the parameters for these schemes are produced in and exported from the CEE states into Western Europe.) Therefore, despite recent years of significant growth, recovery due to the global recession will likely be slow, with 2008 marking a peak in production, and anticipated recovery to pre-recession levels only being achieved by 2015 (see table below). *Just-Auto* also projects that the Czech Republic and Slovakia are poised to overthrow Poland's historic powerhouse status in the region, given significant automotive investment choices recently made in these countries by the likes of PSA Peugeot, Toyota, Hyundai and Kia, based on their geographically more centralized location.

Top CEE Markets: Forecast Vehicle Production (000s units)[6]

Year	2008	2009	2010	2011	2012	2013	2014	2015
Poland	882.1	725.6	754.6	770.6	635.6	605.8	586.2	637.7
Czech Republic	853.7	743.6	792.8	812.2	799.7	869.7	923.9	1,010.8
Slovakia	529.6	418.7	595.7	795.8	803.4	849.2	860.0	866.0
Hungary	341.4	250.9	252.0	240.2	269.3	288.8	324.3	341.9
Romania	245.8	233.1	285.6	379.9	469.8	507.5	554.7	569.1

Source: CSM Worldwide Automotive Forecasting

Czech Republic

The automotive industry in the Czech Republic is one of the key sectors in the economy, accounting for approximately 7.43 percent of GDP[7] and direct employment of 126,223 people in the workforce.[8] The Czech Republic is emerging as one of the major markets in the region in terms of both sales and production. According to BMI, in 2009, the Czech Republic produced 870,512 completely built up (CBU) vehicles, down from 949,746 in 2008. Sales were also down slightly to 206,296 CBUs, from 215,419 in 2008. BMI forecasts gradual increases over the coming years in sales with a 2014 forecast of 243,121, and a significant iincrease in production to 1,194,627.

[6] Mark Bursa, "Central and Eastern Europe automotive market review – Management Briefing," Just-Auto, May 2009, p.9

[7] BMI, Czech Republic Autos Report, Q3 2010, May 2010, p. 27

[8] http://www.acea.be/index.php/country_profiles/detail/czech_republic#text

The Czech Republic has drawn significant investment over the years. For example, Hyundai's Nosovice plant opened in November 2008, building the i30 hatchback. Considered as the mirror plant to Kia's Zilna plant in Slovakia (which opened in 2007, and is only 90 kilometers away) there will likely be product integration and model sharing, with Nosovice building some Kias and Zilna building some Hyundai's. A strong recovery in 2011 is expected, with passenger car sales at 282,000 units by 2013. Output is also expected to reach 1.5 million units by 2013, boosted by production at the Hyundai plant, which should be operating at full capacity of 300,000 units by then.

Skoda is the Czech Republic's largest company by sales, with revenue equivalent to 5% of the country's GDP, so its performance is an indicator for the country's overall economy, which hinges on the export of cars, car parts and electronics.[9] Indeed, most recent 10-month sales data places Skoda at only 1.7% short of its global sales target for the year, achieving sales of 570,217 vehicles. Many of Skoda's sales were in the UK (scrappage programs), China, and Australia.[10]

Additional sources:

Czech Automotive Association[11]

Czech Automotive Industry overview[12]

Hungary

Hungary's automotive industry is also one of the key sectors in the economy, accounting for approximately 8.5 percent of GDP,[13] and employing 58,806 people in the workforce.[14] According to BMI, in 2009, Hungary produced 272,127 completely built up (CBU) vehicles, down significantly from 346,055 in 2008. Sales were also down slightly to 159,704 CBUs, from 189,869 in 2008. BMI forecasts gradual decreases over the coming years in sales with a 2014 forecast of 130,621 but an increase in production to 419,550. Like its fellow CEE members, the focus is on production and export. Imports, however, are also on the rise, but they will predominantly be used vehicles. Unfortunately, car production is increasing rapidly in nearby CEE states, and there is a danger that there will not be enough demand to absorb the big increases in regional car production and supply.

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[9] just-auto, "Czech Republic/Germany: Scrappage schemes boost Skoda as Audi buoys VW group", 30 October 2009.

[10] BMI Daily Autos Alert "Czech Republic: Skoda Close to Reaching 2009 Sales Target", November 17, 2009.

[11] Automotive Industry Association of the CR (AIA): www.autosap.cz

[12] http://www.acea.be/images/uploads/files/20081104_Czech_Republic_country_profile.pdf

[13] BMI, Hungary Autos Report, Q4 2009, p. 27

[14] http://www.acea.be/index.php/country_profiles/detail/hungary#text

Additional Sources:

Hungary Automotive Trade association[15]

Hungary Automotive overview[16]

Poland

Poland has traditionally been the largest market in the region in terms of both automotive sales and production. Nearly four percent of Poland's GDP[17] can be accounted for by the automotive industry, which directly employs 137,000 people in the workforce.[18] According to BMI, in 2009, Poland produced 867,542 completely built up (CBU) vehicles, down significantly from 1,158,796 in 2008. Sales were also down slightly to 371,795 CBUs, from 372,676 in 2008. BMI forecasts gradual increases over the coming years with a 2014 forecast of 488,047 for sales and 1,248,144 for production.

The automotive industry's strength is in its export-driven strategy. Indeed, according to BMI data, for some years it appears that Poland has exported more than it has produced.[19] While in the past Poland focused on indigenous market production for sales in the domestic market, most sales today in the Polish market are from imported models (mostly used), not domestic production, as these vehicles are typically exported to more lucrative markets. Therefore, it is not surprising that the Government of Poland is juggling policies regarding used car imports to ensure environmentally-sound, but also to encourage the absorption of indigenous production and to insulate from such reliance on exports.

The Polish automotive association also reported that new and used vehicle registrations were up by 11 percent during 2008. According to Just-Auto, Poland was the only market in CEE to post gains at 0.1 percent. Since vehicle ownership level remains low, a raise in wages should also boost demand. But with a tight economy, demand for older, used cars is also on the rise. The CEE markets are vulnerable to the flood of used cars challenging new market sales and output growth could slow with forecast stagnant EU market and over 90 percent of its car production exported, Poland is overexposed to fluctuations in overseas markets.

Some manufacturers are relocating within CEE, increasing competition in the region for investments. For example, in October 2009, Takata Petri, a Japanese steering wheel manufacturer, announced that it is relocating its plant to Romania from Poland, based on closer proximity to demand. Nonetheless, substantial production will remain in Poland. For example, according to Just-Auto, Fiat Auto Poland broke its production record of 500,000 vehicles (by

[15]Association of the Hungarian Automotive Industry (AHAI): www.gepjarmuipar.hu

[16]http://www.acea.be/images/uploads/files/20081104_Hungary_country_profile.pdf

[17]BMI, Poland Autos Report, Q2 2010, Feb 2010, p. 22

[18] http://www.acea.be/index.php/country_profiles/detail/poland#text

[19] BMI, Poland Autos Report, Q2 2010, Feb 2010; compare data in tables on pages 19 and 22

third quarter 2009) and it hit its target of 600,000 vehicles by year end, at its Tychy plant. Fiat is fully-committed to remaining in this market. In 2008, Tychy produced 492,000 cars; 247,000 of which were Pandas, which it has been building the last 7 years. It also builds the Fiat 500 and the Ford Ka.[20]

Additional sources:

Poland Auto Association[21]

Poland Automotive Industry overview[22]

Romania

Romania's automotive industry accounts for nearly six percent of its GDP[23] and directly employs 60,281 people.[24] According to BMI, in 2009, Romania produced 298,189 completely built up (CBU) vehicles, up slightly from 245,308 in 2008. Sales, however, dropped drastically to 150,659 CBUs, from 324,080 in 2008. BMI forecasts gradual increases over the coming years with a 2014 forecast of only 290,002 for sales but 437,245 for production.

Many investments are underway, such as Renault's investment of one billion dollars to modernize Dacia's huge Pitesti plant. The low-cost Logan model, originally targeted as a low-cost car for emerging markets, is also a hit in France and Germany during these difficult economic times. In less than four years, 1 million Logans have been built. During 2007, Ford acquired the Romanian automaker Automobile Craiova, which operates the former Daewoo plant in the southwest of the country. (Ford had been absent as a producer in the CEE since it closed its CKD plant in Poland in the late 1990s, with most of its focus on a successful plant near St. Petersburg, Russia). Ford will start with a small car built solely in Craiova and expects up to 90% of vehicle production to be exported. This could be a version of the next generation Ka, which is being developed jointly with Fiat on the new 500 platform.

The emergence of new or renewed vehicle factories in Romania and the region will also boost component makers. The Romanian auto industry could see an influx of investments in the near future, thanks to plans by as many as 12 parts makers to build production facilities in the country, as revealed by Constantin Stroe, chairman of the Association of Automotive Manufacturers of Romania (ACAROM) in February 2010. BMI believes Romania's attractiveness lies in its low-cost production and the entry of a large number of carmakers in the

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[20]just-auto, "Poland: Panda pushes Fiat to record production", November 9, 2009

[21]Poland Auto Association (Polski Związek Przemysłu Motoryzacyjnego): http://www.pzpm.org.pl/en/

[22]http://www.acea.be/images/uploads/files/20081104_Poland_country_profile.pdf

[23]BMI, Romania Autos Report, Q2 2010, March 2010, p. 30

[24]http://www.acea.be/index.php/country_profiles/detail/romania#text

country over the last few years, which has helped bring investments from both Tier 1 and Tier 2 suppliers.[25]

Additional sources:

Romania Automotive Association[26]

Romania Automotive Industry Overview[27]

Slovakia

Slovakia is also emerging as one of the CEE's most significant automotive economies, with the sector accounting for nearly 17 percent of GDP[28] and directly employing 76,000 people.[29] According to BMI, in 2009, Slovakia produced 533,306 completely built up (CBU) vehicles, down from 575,776 in 2008. Sales were also down to 97,763 CBUs, from 102,378 in 2008. BMI forecasts gradual increases over the coming years with a 2014 forecast of 116,604 for sales and 685,534 for production.

Kia's Zilna plant opened in 2007 and currently makes three versions of the Kia Cee'd compact (5-door and 3-door hatch and 5-door wagon, as well as the Sportage compact SUV. Even with labor costs low, both Nosivice and Zilna plants are highly automated, including 100 percent automation in body shops, which run constantly. Volkswagen's plant in Bratislava currently builds the Audi Q7, the Volkswagen Touareg and the Porsche Cayenne, but will be the site for VW's new small family car: "Up" doubling capacity to 400,000 units, and increasing employment by 1,500 people. PSA Peugeot Citroen's small car plant in Trnava, Western Slovakia, opened toward the end of 2006, is another beneficiary of the West European scrappage schemes in operation in markets such as Germany and the United Kingdom. In fact, PSA had to increase daily output at its Slovak plant in response to rising demand for small cars.

Additional sources:

Slovak Republic Automotive Association[30]

Slovakia Automotive Industry Overview[31]

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[25]BMI Industry View, Romania Q2 2010, April 1, 2010.

[26]Asociatiei Constructorilor de Automobile din Romania (ACAROM): www.acarom.ro

[27]http://www.acea.be/images/uploads/files/20081104_Romania_country_profile.pdf

[28]BMI, Slovakia Autos Report, Q2 2010, Feb 2010, p. 30

[29]http://www.acea.be/index.php/country_profiles/detail/slovak_republic#text

[30]Automotive Industry Association SR (ZAPSR): www.zapsr.sk

[31]http://www.acea.be/images/uploads/files/20081104_Slovakia_country_profile.pdf

Conclusion

It is clear that other countries have been inspired by the top CEE automotive markets and seek to learn from their experiences. For example, in Serbia, a top government official has said Serbia wants to copy Slovakia by attracting European investment in its car industry. Slovakia, home to Kia's first European plant, became a car industry hub earlier this decade, triggering rapid economic growth, although also leaving it exposed to the collapse in world demand following the global financial crisis.[32]

Without a doubt, the CEE region will remain important for years to come, as the dynamics between the regions of Western Europe and the CIS places these countries in a strategic zone for automotive manufacturers. Despite recent global financial turmoil, manufactures continue to choose CEE for new investments, and it will be a region to watch.

[32]just-auto, "Serbia: Government wants to copy Slovakia with cars," 22 October 2009; and BMI Industry View, "Hub Status to Aid Autos Sector Recovery", Slovakia, 24 Feb 2010