

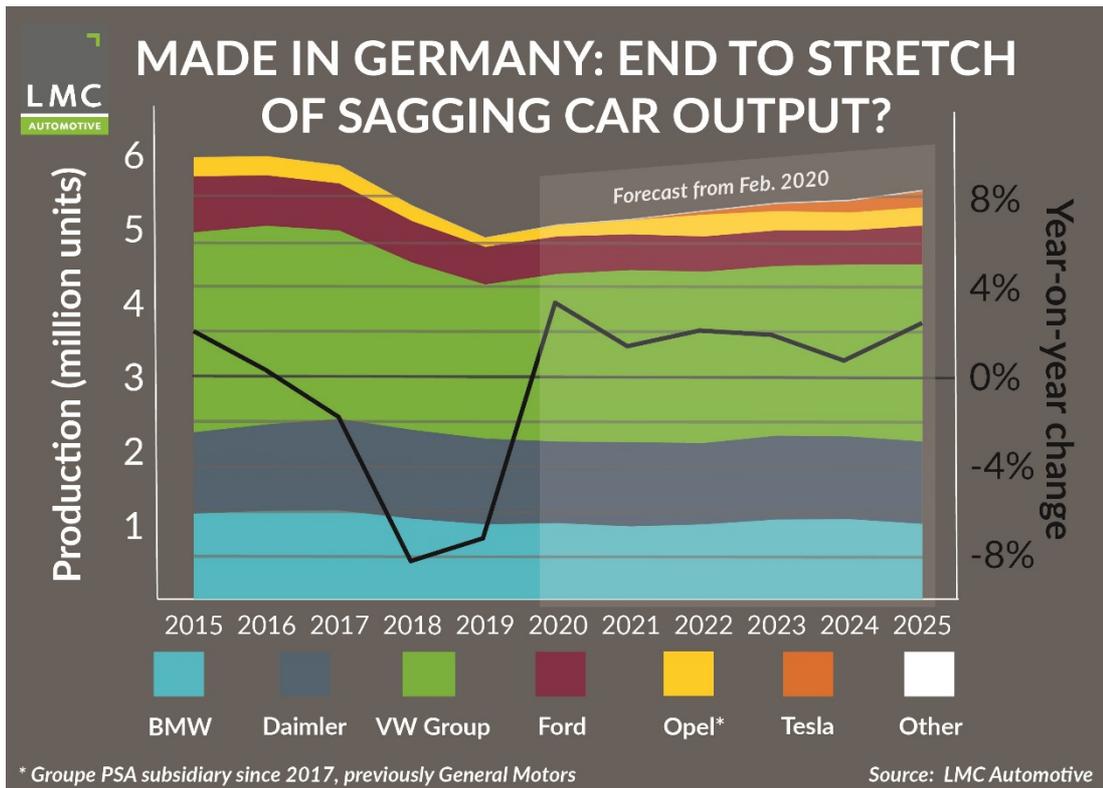
LIGHT VEHICLE MANUFACTURING

Autoland Germany: Stalled production set for turnaround

LMC Automotive predicts an end to a prolonged decline in German light vehicle output; electrification could secure country's future as a car manufacturing base

Oxford, 18 February 2020. A combination of model offshoring policies and weak export markets drove a third-consecutive annual drop in light vehicle (LV) production in Germany, which fell 8% year-on-year in 2019 to 4.9m units. That was its lowest level since 2000, according to LMC Automotive, and came despite a 5% rise in domestic sales. The industry intelligence and forecasting specialist foresees a modest recovery starting this year, although it expects total German output of vehicles under 6 tonnes to remain below recent peak levels of 2015-16 through 2025.

Exports, which represent three-quarters of Germany's LV production, played a considerable role, off 8% last year and 19% since 2016. This reflects weakness in the UK, US, China and Italy: Sales in the top four foreign markets contracted by 7% in 2019. Difficulties remain, as China's already sagging LV demand faces fallout from the coronavirus epidemic. And Brexit deal uncertainty adds another layer of distress to the cyclically downturned UK market, currently the destination for 18% of German output.



“A more fundamental issue, however, is offshoring production of trendy crossovers, leaving ‘traditional’ sedans, hatchbacks and MPVs clustered at factories in Germany,” says Justin Cox, director global production at LMC Automotive. German SUV production fell 7% between 2016 and 2019, even as European SUV demand doubled.

During this period, domestic output of Volkswagen Group's Golf, Passat, Touran, Sportsvan and Audi sedans and wagons fell by 25%. Assembly lines in Spain, Portugal, Hungary and Mexico, meanwhile, churned out hot-selling SUVs like the VW T-Roc and

T-Cross or Audi Q3 and Q5. VW's overall German production fell 8% in 2019, although LMC Automotive anticipates a 9% recovery this year as VW ramps up ID3 output and repatriates Golf production from Mexico.

The story is similar at Ford: Conventional Fiestas and Focuses are made in Germany, where output has declined by one-third since 2015, while crossovers are built at plants in Spain (Kuga) and Romania (Ecosport, Puma). With a lack of new models on the horizon, the consultancy sees further downside for German production through 2024.

Opel, too, has suffered, with domestic output cut in half since 2015. From this low basis, however, double-digit annual growth is forecast for the 2020-22 timeframe. Owner Groupe PSA recently moved the Grandland X (an SUV) to Eisenach, Germany, and LMC Automotive expects Astra assembly to return to Rüsselsheim from Poland in 2021.

For BMW and Daimler, an expanding model range fuelling global market expansion has supported relatively stable home-country output. However, as with all Germany-based producers, they continue to face the burden of costly and inflexible labour as the industry pivots towards electrification. Intensifying emissions regulations and the associated costs only add to the pressure on manufacturing margins.

LMC Automotive predicts a 4% increase in German output this year followed by slow but steady growth in the years to follow. Nevertheless, there are real risks that Germany's high cost-base and the accelerating squeeze on margins could encourage another corrosive wave of offshoring in the second half of the decade.

"That said, Tesla's planned 500,000-unit assembly plant near Berlin and the billions of euros established carmakers are pouring into electrification and connectivity does provide hope for Germany's continuing attractiveness as a manufacturing base," says Cox. "Ultimately, so much depends on how the demand for e-models develops, and if the German automobile industry can be flexible enough to accommodate the financial and operational challenges that the shift to electrification poses."

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About LMC Automotive

LMC Automotive is the leading independent and exclusively automotive focused provider of global forecasting and market intelligence in the areas of vehicle sales, production, powertrains and electrification. Highly respected for its responsive customer support, the company's client base from around the globe includes car and truck makers, component manufacturers and suppliers, financial, logistics and government institutions.

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