Global Auto Manufacturers Gear Up To Tackle Slowdown In Demand Growth

Global auto manufacturers are seeing a slowdown in demand growth across major markets, after several years of sustained gains. The weakness is more visible in passenger sedans as consumer preferences have clearly shifted in favor of SUV's. The increased longevity of vehicles could also be playing a part, as replacing older vehicles has become less compelling. In large cities, people are now less keen to own cars and are relying more on ride share services. Some manufacturers are seeing this as an opportunity to grow sales by signing supply deals with the ride share companies. The rising popularity of electric and, possibly, autonomous vehicles, could drive future growth for the global automobile industry.

Several of the leading global car makers, especially companies based in the U.S. and Europe, have seen a deceleration in volume sales in recent months. After years of robust growth since the industry recovered from the 2008 global recession, a gradual cooling off in demand was expected. Low interest rates and improving labor markets probably delayed the current phase of softer demand, in the U.S. as well as most countries in Europe.

KEY TAKEAWAYS

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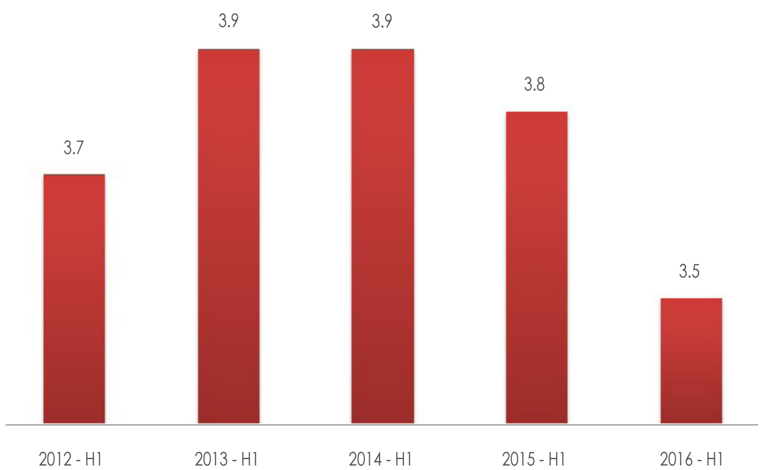
U.S. passenger car sales slump



Number of vehicles in millions

Data source: The International Organization of Motor Vehicle Manufacturers

Growth has also slowed considerably in China, the world's largest market by volume, as the country is battling severe traffic congestion in its major cities as well as high pollution levels. Consumer demand in some of the other emerging countries was hurt by the downturn in the commodities cycle, which led to lower household income growth.

However, much of the demand growth deceleration has happened in the passenger sedan segment, especially for luxury sedans. Most manufacturers continue to see healthy demand for SUV's and crossover vehicles, which have attracted more consumer interest. These larger vehicles are now nearly as fuel efficient as sedans and offer more utility. Manufacturers are now rethinking their product pipelines, rushing to make available more SUV's to the market in the shortest possible time.

The future emission norms set by regulators in the developed countries are expected to drive further efficiency gains in engine technology. These standards are likely to get tighter over the next several years, unless there is a sharp change in regulatory priorities. As manufacturers are required to meet the average norms across their fleet, these regulations would force the car makers to aggressively promote their smaller and more efficient vehicles.

Another option for manufacturers to meet tighter emission norms is to increase their electric vehicle offerings that are non-polluting. However, outside the luxury segment, few manufacturers have so far been successful in launching electric cars that are attractive for customers. Technology remains an impediment, as the travel range of affordable electric cars are limited. The absence of a large network of recharge stations continues to discourage most potential buyers. The cost of batteries is another problem, but this could change in the future when large battery manufacturing facilities become operational.

The rapid growth of ride sharing services was seen as a threat to car manufacturers; as such services could discourage people in cities from owning cars. This is more likely among younger consumers, who also prefer public transport and live closer to work locations. Nevertheless, some manufacturers now see ride share services as an opportunity to grow their fleet sales. These manufacturers have signed exclusive supply contracts with the ride sharing companies, and offer attractive financing on new cars to drivers. This could partly offset the decline in demand, but is unlikely to fully address the decline in sales volumes due to changes in consumer preferences.

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