



ELECTRIC VEHICLES, SELF-DRIVING CARS SEEN TO TRANSFORM GLOBAL AUTOMOBILE INDUSTRY

KEY TAKEAWAYS

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After several years of healthy growth, the global automobile industry saw a moderation in demand this year, especially in developed countries. Few large manufacturers have escaped the slower volume growth, discernible across most major markets. The improved reliability and fuel efficiency of the

Passenger car sales in China have remained buoyant



Data source: Bloomberg (China Automotive Information Net)

vehicles currently on the road have restricted replacement demand, even as the average fleet age in markets such as the U.S. remain at historical highs. Changing lifestyles with reduced dependence on personal transport is also thought to be contributing to reduced demand. The timing of the slowdown, while regulatory investigations into emission claims and large product recalls were ongoing, made it worse for select global car manufacturers. Some of them, including component manufacturers, have had to agree to large financial settlements and other remediation measures.

Volume growth in emerging economies continues to be healthier as growing income levels and low ownership base drive demand expansion. Moderate fiscal incentives in select markets, especially for smaller and more fuel efficient cars, have also helped sales in recent years. One trend that is now visible in most markets is the shift in consumer preference for SUV's and crossover vehicles, over passenger sedans. Many small and mid-size crossovers are now as fuel efficient as sedans, and have comparable pricing. Their better utility is attracting more consumers and this trend is likely to last for a while. While manufacturers are now allocating more of their product development budgets to SUV's, those who already command significant market share in that segment are likely to retain the edge.

Even early this year, electric vehicles were only a small part of the future product development plans for most manufacturers. The share of electric cars in aggregate industry volumes was not expected to grow significantly, even in a decade. This lack of enthusiasm was partly due to the relatively high cost of electric vehicles, as well the limited driving distances before a recharge. With the continuing decline in component costs, especially batteries, and the rapid technology development, there are fewer roadblocks for electric vehicles. However, it was the Chinese government decision to shift the majority of new car sales to electric by 2030 that forced manufacturers to redraw their product development plans. India quickly followed China and announced its own ambitious plan to switch to electric mobility. Before long, almost all global manufacturers announced plans to roll out several electric vehicles over the next five years. Some of the smaller manufacturers have promised to convert their entire product range to electric within two or three years.

With this sudden shift, industry analysts are now projecting electric vehicles to account for more than a fourth of total industry volumes within the next decade. The biggest obstacle to achieving that target would be the inadequate charging infrastructure in most countries. China and India are pushing ahead with government-sponsored projects to scale up the charging networks. In other countries, investments in charging stations could rise rapidly as long as demand growth remains robust.

The development and regulatory approval of autonomous driving technologies could be an even more transformative event for the auto industry. Several manufacturers have invested heavily in this area, and the technology has developed faster than earlier forecasts. However, regulatory approval for wider use of this technology could take longer as several safety and legal liability issues need to be addressed. Nevertheless, judging by the pace at which some of these technologies have taken shape, self-driving cars could also be a reality sooner than currently thought.

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