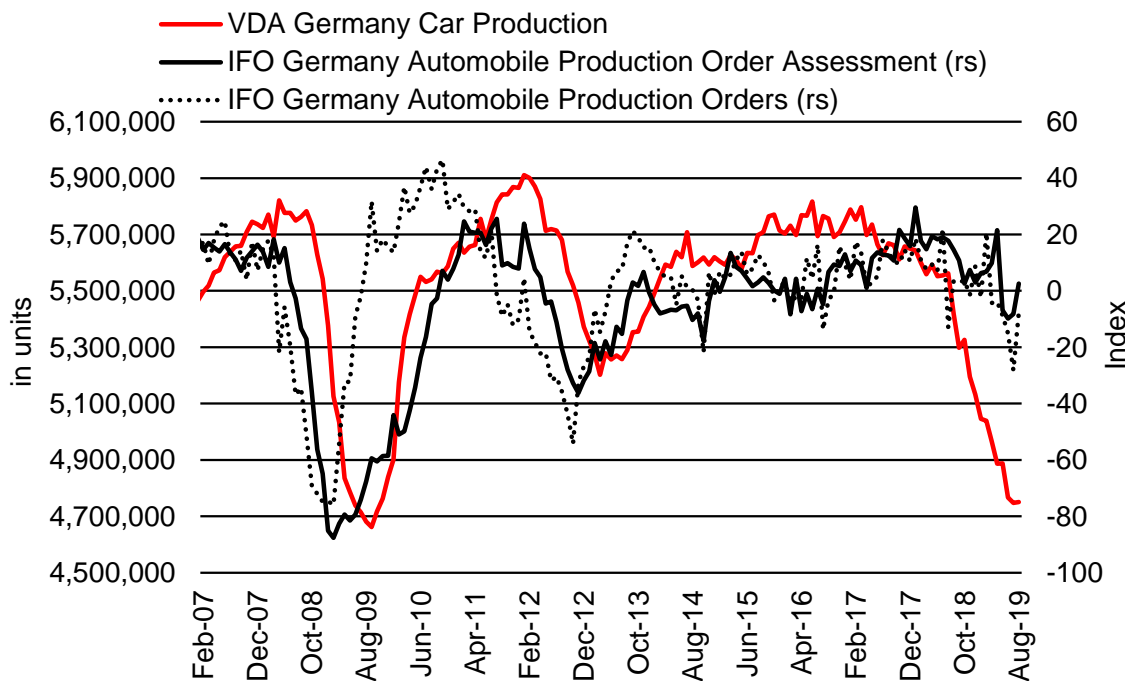


German car production should pick up



Source: UniCredit Research

- This chart shows that the decline in German car production started in 2017 and continued through August 2019. In the last 12 months (LTM) ending August 2019, car production in Germany was down to a level close to that of September 2009, which was during the financial crisis, and is significantly below the peak of roughly 5.7mn units in 2015-17.
- According to the latest available data from VDA, roughly 85% of total car production in Germany was attributable to Germany's big three automakers, and roughly three quarters of German cars produced were exported. These exports were delivered mainly to other countries in the EU (62%), to Asia and to the US. In 2018 and YTD 2019, domestic light-vehicles sales have declined in western Europe and China. Exports to the UK and Italy, where domestic light vehicle sales have also declined in this period, have accounted for a large portion of exports.
- As illustrated in the chart above, in the last two phases of decline (2008/09 and 2012/13), the Ifo automobile-production orders and order-assessment values were early indicators of production growth, and in 2014-17, the lines generally trended closely together. The chart shows that since 4Q18, production has been hit much more than orders. This trend has likely been driven by the WLTP and is explained (presumably) by a run-down of inventories and/or a build-up of work backlogs.
- We think that German car production should pick up. In August 2019, production increased by 0.9% yoy and IFO automobile production orders and order-assessment values improved significantly compared to July, which should be a signal of stabilization and the recovery of production from its current low level. Also, smoothed seasonally adjusted data, such as the 6M moving sum of annualized sa data, which usually front-runs the 12M moving sum, already signaled some stabilization in 1Q19. Moreover, as the production decline started in 2017 and the rate of decline accelerated from August 2018, the yoy-comparison growth-rate numbers are more likely to result in lower yoy-decline rates or even positive growth rates in 4Q19. Nevertheless, the visibility for a significant recovery in production numbers is rather low for the time being.

Dr. Sven Kreitmair, CFA, Head of Credit Research, Credit Analyst (UniCredit Bank, Munich)
 +49 89 378-13246
sven.kreitmair@unicredit.de

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UniCredit Research*

Macro Research



Erik F. Nielsen
 Group Chief Economist
 Global Head of CIB Research
 +44 207 826-1765
 erik.nielsen@unicredit.eu



Dr. Ingo Heimig
 Head of Research Operations
 & Regulatory Controls
 +49 89 378-13952
 ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
 Head of Macro Research
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu



Dr. Sven Kreitmair, CFA
 Head of Credit Research
 +49 89 378-13246
 sven.kreitmair@unicredit.de

European Economics Research



Dr. Andreas Rees
 Chief German Economist
 +49 69 2717-2074
 andreas.rees@unicredit.de



Dr. Loredana Federico
 Chief Italian Economist
 +39 02 8862-0534
 loredanamaría.federico@unicredit.eu



Stefan Bruckbauer
 Chief Austrian Economist
 +43 50505-41951
 stefan.bruckbauer@unicreditgroup.at



Daniel Vernazza, Ph.D.
 Chief International Economist
 +44 207 826-7805
 daniel.vernazza@unicredit.eu



Tullia Bucco
 Economist
 +39 02 8862-0532
 tullia.bucco@unicredit.eu



Edoardo Campanella
 Economist
 +39 02 8862-0522
 edoardo.campanella@unicredit.eu



Walter Pudschedl
 Economist
 +43 50505-41957
 walter.pudschedl@unicreditgroup.at



Chiara Silvestre
 Economist
 chiara.silvestre@unicredit.eu



Dr. Thomas Strobel
 Economist
 +49 89 378-13013
 thomas.strobel@unicredit.de

EEMEA Economics Research



Dan Bucsa
 Chief CEE Economist
 +44 207 826-7954
 dan.bucsa@unicredit.eu



Gökçe Çelik
 Senior CEE Economist
 +44 207 826-6077
 gokce.celik@unicredit.eu



Mauro Giorgio Marrano
 Senior CEE Economist
 +43 50505-82712
 mauro.giorgiomarrano@unicredit.de



Florin Andrei, Ph.D.
 Senior Economist, Romania
 +40 21 200-1377
 florin.andrei@unicredit.ro



Artem Arkhipov
 Head, Macroeconomic Analysis
 and Research, Russia
 +7 495 258-7258
 artem.arkhipov@unicredit.ru



Hrvoje Dolenc
 Chief Economist, Croatia
 +385 1 6006-678
 hrvoje.dolenc@unicreditgroup.zaba.hr



Dr. Ágnes Halász
 Chief Economist, Head of Economics and
 Strategic Analysis, Hungary
 +36 1 301-1907
 agnes.halasz@unicreditgroup.hu



Ľubomír Koršňák
 Chief Economist, Slovakia
 +421 2 4950 2427
 lubomir.korsnak@unicreditgroup.sk



Kristofor Pavlov
 Chief Economist, Bulgaria
 +359 2 923-2192
 kristofor.pavlov@unicreditgroup.bg



Pavel Sobišek
 Chief Economist, Czech Republic
 +420 955 960-716
 pavel.sobisek@unicreditgroup.cz

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eilsbach 4, D-80538 Munich, globalresearch@unicredit.de
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