

# EU Autos Sector

Markit data confirm significant deterioration in EU autos sector conditions

## Key findings

- Economic fundamentals weakened significantly during 2008-to-date.
- Widening in credit spreads consistent with deteriorating sector strength.

The global financial crisis has seen widespread support provided to the banking sector by national and regional governing bodies and from supranational institutions. Attention has also been focussed on the autos sector, with the US federal government having already offered financial support to the Detroit big-3 (GM, Ford and Daimler Chrysler).

There have also been reports of shutdowns, closures and reduced working hours at UK car plants. Meanwhile, some Eurozone leaders have been indicating that support packages are being considered. All this raises one major question, to what extent have conditions in the European autos sector deteriorated so far in 2008?

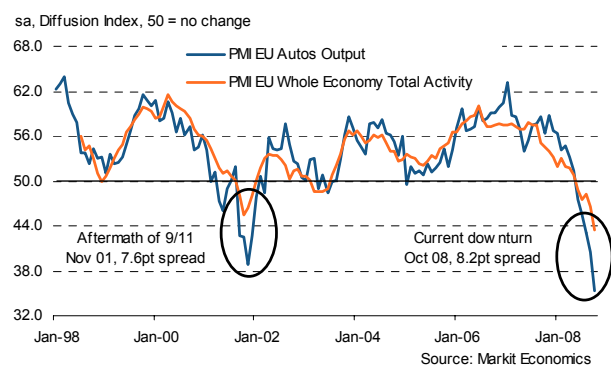
## PMI data track significant downturn in EU autos sector through 2008-to-date

PMI data from Markit Economics provide a highly accurate and timely indication of trends in EU ICB sectors, including ICB 3300 Automobiles & Parts. This definition covers not only producers of automobiles, but also the suppliers of intermediate parts and components, providing a comprehensive overview of conditions across the autos sector and feeder industries.

Chart one (above right) plots the PMI Output Index for the EU Automobiles & Parts sector against PMI data for the EU total private sector economy (manufacturing & services combined). The data clearly show that autos producers have seen a significant downswing in the trend in their output through 2008-to-date, with the rate of contraction hitting a series record rate in October 2008 and falling markedly below that of the broader EU private sector. The last time that the EU Automobiles & Parts sector fell below its equivalent Output Index for the

EU as a whole to a similar extent was in the months immediately following the aftermath of 9/11.

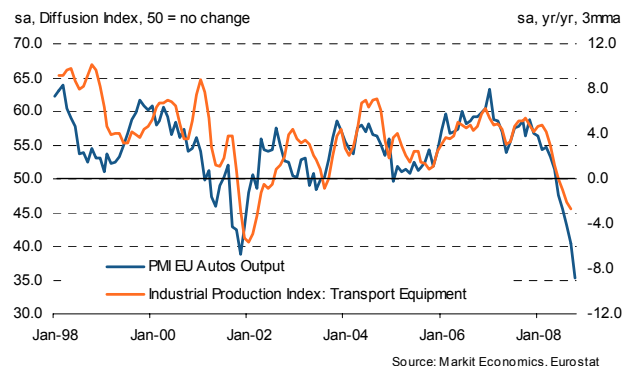
Chart one



## PMI data point to 8% year-on-year contraction in EU autos sector output

PMI data for the EU ICB 3300 EU Automobiles & Parts sector have an excellent record in tracking year-on-year changes in the official industrial production index for the manufacture of transport equipment (chart two, below).

Chart two



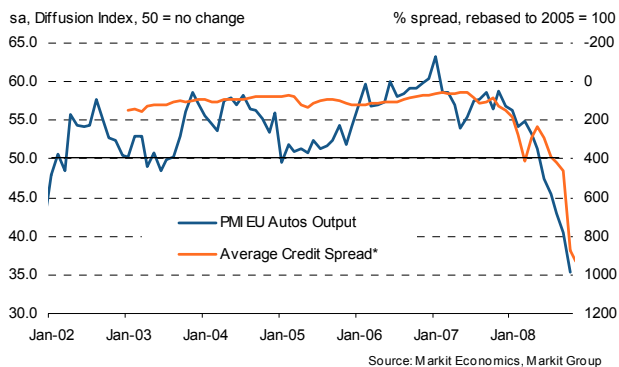
PMI data accurately forecast the turnaround in the performance of the sector signalled by the official measure, with growth slipping from a high of 5.4% in mid-2007 to a contraction of 3.1% in September 2008. PMI data suggest that this downward trend is likely to

continue, with the rate of contraction nearing 8% in October.

### Autos credit spreads widen as downturn takes hold

A key feature of the downturn in the autos sector through 2008 has been a marked widening in the credit spreads of the world's major automobile manufacturers. Chart three shows the average credit spread for debt issued by General Motors, Ford, Toyota, Peugeot and Volkswagen.

Chart three



\* Average credit spread was calculated as the arithmetic average of the 5-year credit spreads for General Motors, Ford, Toyota, Peugeot and Volkswagen. Spreads for each company were rebased to 2005 in order to allow comparison of relative risk corrected for magnitude of risk of each companies debt.

The trend in the PMI data suggest that the widening of the credit spreads this year have been broadly in line with the deterioration of the economic fundamentals of the autos sector.

### Conclusion

PMI data confirm that the EU autos sector has undergone a marked retrenchment in production volumes so far during 2008, with the rate of contraction likely to accelerate further to around 8% yr/yr in October.

The weakness of the sector has already impacted on credit spreads for the major autos producers, making the cost of credit restrictively high at a time when sales volumes are being hit by the onset of the global economic downturn. However, PMI data indicate that the rise in relative risk across the major car manufacturers appears to be broadly in line with the deterioration in economic fundamentals for the sector.

With the performance of the sector collapsing and the cost of credit necessary to support manufacturers during the current lean period restrictively high and increasingly inaccessible, auto manufacturers are likely to continue to call for similar measures as those provided by governments and central bankers to prop up the ailing banking sector.

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