

European Union

EU Autos sector boosted by scrapping incentives

Key findings

- **Output at Automobiles & Parts firms continued to fall...**
- **...but the drop in production and new orders in Q2 was the smallest for a year.**

Slower declines in Autos sector in Q2

Although latest PMI data pointed to a further drop in production at firms in the European Union Automobiles & Parts sector in June, the rate of contraction seen over the past two months has been much slower than at the start of 2009. This indicates that the scrapping incentives, offered first in Germany and then across the EU, have helped to arrest the steep decline in car production within the region. Moreover, new orders at EU car and parts producers have neared stabilisation (see chart 1).

Output fell for the thirteenth consecutive month in June. Although the pace of decline accelerated from the previous month, it was still well below the records seen at the end of 2008 and start of 2009. Taking an average for the second quarter as a whole, the contraction was the smallest since Q2 2008.

Demand nears stabilisation

The rebound in inflows of new business has also been swift. After hitting a record low in December 2008, the autos sector New Orders Index has risen in each of the past six months to register only a marginal fall in new business in June. As with output, the Q2 contraction of new orders was the smallest since Q2 2008.

Another signal that capacity is being increasingly utilised in the sector was provided by the Suppliers' Delivery Times Index, which indicated longer lead times for the first month since August 2008. That said, employment continued to decrease at a substantial pace as car makers continued to focus on cost control (see chart 2).

It remains to be seen whether the sector will continue to improve once the scrapping incentives end. PMI sector data will provide the earliest indication as to the underlying strength of the sector going forward.

EU sector data is released on the fifth working day of each month. July data will be available on 7 August. For more information please contact economics@markit.com

Chart 1: Autos Output and New Orders

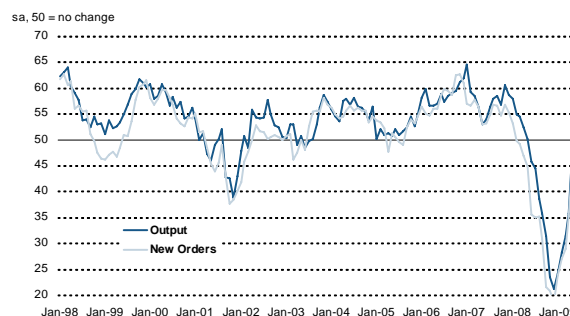
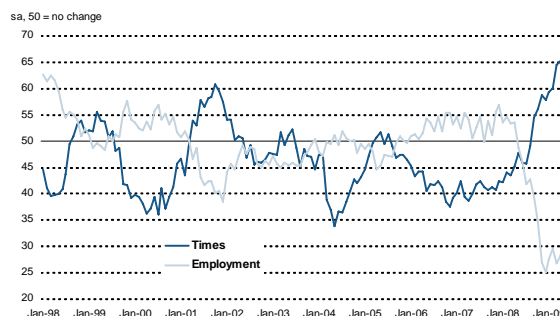


Chart 2: Auto Sector Suppliers' Delivery Times and Employment



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