



Automotive production in Germany still on the back burner – "peak car" behind us

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Due to the continuing shortage of semiconductors, 2021 will be another weak year for Germany as an automotive location. Although the current economic and supply crisis may have reached its low point, a return to earlier highs is unlikely – even in the medium term. By contrast, German auto manufacturers are reporting positive results and gaining share in important markets. The discrepancy between Germany as an automotive location and the German auto industry is becoming apparent.

2021 was supposed to be the year in which the automotive industry in Germany would at least partially make up for the production losses of previous years. But nothing will come of it. 2021 will also be a very weak year for Germany as an automotive location.

Automotive production in Germany on the back burner

Output and orders in the automotive industry in Germany, 2015=100



Source: Federal Statistical Office

First, a brief look back: Primarily due to the decline in global demand for passenger cars, production in the automotive industry in Germany (measured by the production index) already fell by 1.7% in 2018 and by a further 11.3% in 2019. This was followed by the coronavirus year 2020 with a production slump of 23.5%. Although production recovered in the course of the 2nd half of 2020, since the beginning of the year it has gone awry. The lockdown measures at the time were obviously not helpful for the economic recovery. However, the main reason for the weak production is the continuing supply bottlenecks for semiconductors, which are hitting the auto industry particularly hard. In Q1 2021, production fell by 10.4% yoy Q4 2020, followed by a drop of 11.3% yoy in Q2. July brought only a slight recovery. And August is unlikely to be any better, as unit car production, which has already been recorded statistically, was 32% below the low level of the previous year in this month.

In view of the above-mentioned supply bottlenecks, auto manufacturers are concentrating on the production of high-margin cars. Production volumes are suffering as a result. In addition, the share of electric cars in total production in Germany is increasing. However, these generally require more chips than vehicles with internal combustion engines. Furthermore, the conversion of individual factories to the production of electric cars reduces the available capacity. In addition, the production of parts and components used in diesel cars and gasoline-powered cars is gradually coming under pressure due to the transformation to e-mobility; the net effect of this transformation on overall automotive value added in Germany is negative. In the current crisis, structural (intra-group) shifts in production within Europe could also accelerate, to the detriment of Germany – for cost reasons, for example. It is



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at least noticeable that the shortage of semiconductors in other EU countries leaves less deep marks in the production figures than in Germany.

On the positive side, the current economic and supply crisis may have bottomed out. This is supported by the fact that production and export expectations in the automotive industry rose noticeably in August. This is not an all-clear signal regarding the shortage of intermediate products. But at least things should not get any worse. Furthermore, new orders in the sector – measured against the production data – are at a fairly high level. Demand is therefore present and is likely to have an impact on production as soon as the supply chains start to function better again.

Overall, auto production in Germany is expected to grow by less than 5% in 2021 as a whole. This is disappointing compared with the already low level of 2020. Production growth in the sector is expected to accelerate next year; a statistical overhang will play a role. However, because the chip shortage is still likely to have a dampening effect in 2022, the trees will probably not grow to the sky next year either. In structural terms, we believe it is unlikely that the pre-crisis level of auto production in Germany will be reached again. This applies at least to car production in unit terms. In this respect, the peak of auto production in Germany is already behind us.

In our report on [Germany's future as a car making location](#) from the beginning of the year, we wrote: "The German car industry is better prepared for the electric mobility future and other structural challenges than Germany as a production location." This is clearly evident in the current crisis: while automotive production in Germany continues to run at a reduced pace, German automakers have more and more electric cars on offer, are gaining market share in key automotive markets and are reporting good financial results. The discrepancy between Germany as an automotive location and the German automotive industry is becoming apparent.



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