Major slump in European auto industry

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The year 2013 will be the worst for the auto industry in Western Europe in 30 years. This emerged from a recent report prepared by Professor Ferdinand Dudenhöffer of the Center Automotive Research (CAR) at the University of Duisburg-Essen in Germany.

Auto companies and firms in the supply industries are responding to the prolonged economic crisis with mass layoffs and spending cuts. CAR's Dudenhöffer estimates that between 2010 and 2020, there will be 24 million unsold vehicles in Western Europe, which would be the equivalent of sales worth some 312 billion euros [$US 400 billion].

From 2000 to 2007, an average of approximately 14.7 million vehicles were sold in Western European countries each year. Dudenhöffer's prognosis of 11.9 million vehicles sold in 2013 would be the lowest figure since the European Union (EU) was formed. And the sales crisis in the European market is set to worsen further.

The central reason for the slump in sales figures is not a mystery: it is the sharp rise in the number of unemployed. "The unemployed are no good at buying cars," explains Dudenhöffer. In southern Europe, there is virtually no chance of a rapid recovery in the auto market.

Unsurprisingly, Italy, Spain, France, Portugal and Greece have been particularly hard hit. In these countries, sales are expected to decline by a further 9.6 percent in 2013 to 3.75 million vehicles, after dropping 17 percent last year.

Business consultants AlexPartners are predicting no growth in the Western European auto market during this decade, an astonishing turn of events. Sales figures fell to a 20-year low in May.

The crisis in the auto industry is a direct product of the austerity policies of the EU. Since the onset of the spending cuts, unemployment in southern Europe has risen rapidly. In countries like Spain and Greece, 60 percent of young people are out of work.

Even many of those with jobs have to struggle with sinking or stagnant incomes. A large purchase such as a new car is not an option for masses of people.

According to AlexPartners, 58 of the 100 largest auto factories in Europe will make a loss this year, since they will operate below the critical level of 75-80 percent of capacity.

Conditions in Italy are particularly disastrous, where auto plants are operating at 46 percent of capacity. In France the figure is 62 percent and in Spain, 67 percent. Germany in comparison is still operating at 81 percent.

Production capacity must be reduced by 3 million vehicles, experts claim, in order to adjust to the lower sales figures. This would require the elimination of 10 to 12 large plants.

"Plant closures have only been announced so far," stated Elmar Kades from AlexPartners. "Now the producers are being forced into action." In Italy alone, production will have to be cut by 617,000 vehicles annually, or two factories shut down, in order to return to profitability. The plant closures at Opel in Germany and Peugeot in France were only the beginning.

The crisis is also taking its toll on auto parts suppliers. A study by global strategy consulting firm Roland Berger, headquartered in Munich, predicts that 75,000 jobs will be cut in the auto parts supply industry in Western Europe over the next five years.

German supplier Schaeffler, a major manufacturer of rolling element bearings, recently announced it would outsource its production of wheel bearings from Schweinfurt in Bavaria over the next three years. The jobs of 876 workers will be eliminated as a result.

Justifying the shifting of production abroad, the firm cited the extremely competitive pressure on costs. Last year had shown that the production of wheel bearings and other auto parts in Schweinfurt was no longer possible, according to Schaeffler CEO Wolfgang Dangel. The company employs around 76,000 people globally, 6,000 of whom work in Schweinfurt.

German supplier Mahle, a major manufacturer of components and systems for the combustion engine, is closing a factory in Ingersheim (Haut-Rhin) in northeastern France, with the loss of 270 jobs. At the end of March 2014, the firm will halt production of engine pistons at the plant near Colmar in Alsace. The plant lost 43 million euros between 2007 and 2012, according to the announcement of its closure. “Despite all of the measures agreed over previous years to cut costs and increase productivity, the numbers have not improved,” a company spokesperson said.

Eberspächer, experts in exhaust technology and air conditioning, is cutting jobs as a result of poor business figures. In 2012, the profits of the company based in Essling fell by 6.3 percent, to 71.5 million euros. Management is anticipating a further decline this year.

In order to cut costs, the largest facility in Neunkirchen, Saarland, in southwestern Germany, will be reduced in size. In total 300 jobs are to be cut. Company management did not rule out further cuts depending on business conditions. Eberspächer currently employs more than 7,000 workers worldwide.

The operating profit of specialty chemical group Lanxess, based in Leverkusen, Germany, which relies on the production of tires and gaskets for the auto industry for almost half of its sales, slumped by 53 percent last year due to the auto crisis.

Bosch, the world’s largest auto parts supplier, announced a harsh package of cuts in April. Turnover for 2012 increased by only two percent, far below the eight percent target for long-term growth set by the giant company.

French auto supplier Faurecia, also one of the largest global auto parts manufacturers, which operates under the majority ownership of PSA Peugeot, has also announced layoffs and spending cuts.

“In the first quarter, production contracted by 9 percent. For this year we expect an overall drop of 4-5 percent in Europe,” the company stated as a justification for the cuts. In order to reduce costs by 50 million euros, Faurecia is planning to cut costs in Germany as well as France.