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German slowdown stands out as tighter emission standards weigh on automotive industry

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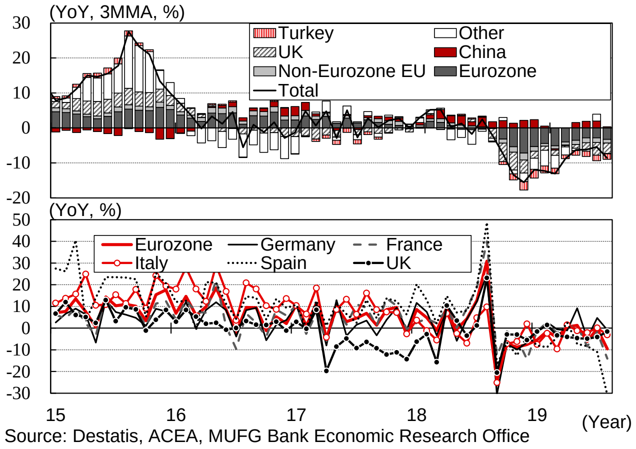
At its 12 September meeting, the Governing Council of the European Central Bank (ECB) announced five new monetary easing policies. The ECB has 1) cut interest rates further into negative territory for the first time in three and a half years (cutting the deposit facility rate from -0.4% to -0.5%) 2) strengthened forward guidance, 3) restarted the asset purchase programme (APP), 4) introduced two-tier system for reserve remuneration, and 5) loosened the lending conditions for the third round of targeted longer-term refinancing operations (TLTRO III). The ECB's announcement of this large-scale stimulus package came against a backdrop of increased uncertainty relating to Brexit and US-China trade frictions, but was also influenced by the slowing Eurozone economy, notably by the fact that the downturn has extended to negative growth in Q2 in Germany, the largest economy in the region. In Germany the slump in the manufacturing sector is particularly acute, especially in the automotive industry.

Many observers point to the shrinking of the automotive market in China as the cause of this slump. However, figures for German exports (which make up more than 75% of German automotive production) show positive growth in exports to China whilst exports to Europe and Turkey have shrunk considerably, bringing down total growth (Chart 1 upper). Year-on-year (YoY) growth in new vehicle registrations has also fallen into negative territory in most major European countries (Chart 1 lower). This means that the slump in the German automotive sector can in fact be mostly attributed to a decline in European sales.

The decline in European automotive sales can be attributed to various factors, such as Brexit-related uncertainty. However, growth in new vehicle registrations turned negative in the wake of the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in September 2018, which suggests that emissions standards did significantly impact sales.

Various major European cities are planning to introduce bans on diesel cars, and Germany has already banned cars which meet the former Euro 5 emission standard in four cities (Table 1). This raises the possibility that consumers might hold off on purchasing based on the knowledge that cars that comply current regulations could be banned at a later date. We expect that emission standards will continue to be tightened, and will weigh on the German automotive industry, and thus the Eurozone as a whole for some time.

Chart 1：German Automotive Exports Excluding Busses (Upper) and European New Vehicle Regitrations (lower)



Source: Destatis, ACEA, MUFG Bank Economic Research Office

Table 1: Vehicle Emission Standards in European Cities

Location	Date	Diesel	Petrol
Hamburug, Germany	31-May-18	Banned from 2 areas in city centre[1]	Permitted
Stuttgart, Germany	1-Jan-19	Banned from city centre[1]	Permitted
Darmstadt, Germany	1-Jun-19	Banned from 2 areas in city centre[1]	Euro1-2 vehicles banned
Berlin, Germany	1-Aug-19	Banned from 15 areas in city centre[1]	Permitted
Paris, France	By 2024	Aim to ban from city centre	Ban from city centre by 2030
Rome, Italy		Aim to ban	Permitted
Madrid, Spain	By 2025	To be banned	Permitted
London, United Kingdom	By 2030	To be banned from city centre[2]	
Milan, Italy		To be banned from city centre[2]	
Amsterdam, Netherlands		To be banned	
Brussels, Belgium		To be banned	

Note 1: Vehicles compliant with Euro 5 emission standard banned
Note 2: Busses to be replaced with zero emissions models by 2025
Source: Various sources, MUFG Bank Economic Research Office

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