

The impact of recession on car industry



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This chapter explains how the recession occurred with the help of the data and statistics from 2003 to 2008. The recession was not about the one year of low business but it was the result of decline of the cars sales from 2003 and there were not just the decline of sale but also high interest rates and many other factors which would be discussed further. This chapter also elaborate the graphs from the chapter 3.

From 2004 and 2007 the rise of interest rates caused the loaned sales of the new cars and used cars to decline considerably. Market of both first-hand car and used car can be referred as market which is tending to fall as soon as the rate of interest and rate of borrowing increases.

The reason for the high interest rate-sensitivity of car sales is the high proportion of cars bought privately that are purchased on finance, including point-of-sale finance through car dealers and loans from direct lenders such as banks and building societies.

“ New registrations collapsed by 11. 3% to 2. 13 million in 2008, and were down 17. 4% on the peak of 2. 58 million registrations reached in 2003. Used car sales also fell in 2008, by 3. 3%, to an estimated 7. 24 million.” Sales of first hand cars to an individual customers have been very badly smash as 14% sales felt in 2008 linked by drop of 11% for the market of new car as a whole. The 4×4, sports Utility Vehicle (SUV) and the upper medium is the main sectors which sales had fallen considerably. These sales in particular, were greatly affected by great petroleum rates in the second half of 2008 and to add to that vehicle excise duty costs was very high, and on the other

hand while sales of smaller cars in the mini and super-mini segments continued to be more strong, exclusively for diesel-fuelled cars.

Brand features and preferences

In the period of recession the most cars will be sold by that brand which would give the buyers there best in terms of price, reliability and fuel consumption. So considering these key terms the brands that must be the majority with respect of sales for the period of the recession are, Citroen, Kia, smart, Nissan, Skoda, Vauxhall, Citroen and Ford.

The genuine selection of brand is generally based on a wider range of secondary benefits, though probable car purchasers may highlight on the prices, fuel consumptions and reliability as priorities. Considering all these main benchmarks to select the brands, the chart-topping brands according to the customer point of view will be Audi, Vauxhall, Toyota, Ford and Volkswagen.

Figure 3. 3: Total value sales of new and used cars, 2003-13

This graph shows the current prices and also predicts the forecast from 2009-2013.

The figure 3. 3 shows the futures of the car industry, which by the end of this recession will be recover and will be in profitable state. By the figure the total value of the car sales show that with the end of 2010 the market will be running smooth and by 2013 the market will be in profitable state. “ In current prices, car sales will fall in value between 2008 and 2011 with recovery in 2012-13.” The costs of the cars are forecasted to be a slight low in the end of recession and in the post recession period.

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According to some studies the demands of cars will be rebooted strongly and the sells will be great as the recession starts ending as there will be many awaiting customers. How can the car market respond to that demand?

Mintel's trend Renting is All identifies the idea that "one of the more intriguing aspects of the blurring of boundaries is the belief that some people are less motivated by owning 'stuff' and are more concerned with expressing fashion and glorifying transience by renting". A process that allows the car buyer to offset the commitment of buying a new car by loaning it out during any given period (ie when taking an extended holiday, long period of not needing the car or when income is squeezed) could kick start the market. Not just trading down but slowing down. There are numerous reasons in the present climate not to buy a car, whether it be financial, environmental or simply that improved transport links are starting to satisfy people's needs. The car industry has traditionally combated falls in demand by introducing new technology at ever-more competitive prices. On a more micro level, the future was once automatic parking and braking and other such innovations, but what will kick start the car market? The Mintel trend Green Technology details how it will "cover nearly every area of production and consumption, yet much of our optimism stems from expectations that it will help in job creation", an issue that is vital for the survival of the car industry and its manufacturers. Could car manufacturers produce cheaper cars that compromise on performance? In other words, disruptive innovation. Is this what the consumer wants? Could the UK consumer be targeted in the way that Tata has identified the Indian consumer with its 'One Lakh Car' - which is the same car aesthetically, but smaller and with a cheaper engine?

Honda has stressed its commitment to retaining its 4, 200 Swindon workers until the autumn. A number of UK car plants have cut production and jobs because of the huge slump in sales caused by the recession, which has had a knock-on effect on supplier firms.

Honda's fellow Japanese manufacturer Toyota, which employs 3, 900 people in Derbyshire and 600 in Flintshire, North Wales, has already suspended night shifts and announced two 14-day shutdowns. Managers are discussing further cost-cutting measures.

Nissan, which runs Britain's biggest and most productive motor plant in Sunderland, axed 1, 200 jobs earlier this month following an extended Christmas shutdown. One shift was cut from the plant's two production lines until March, with one being reinstated in April.

Jaguar and Aston Martin, both founded in Britain, have also been hit by the slump in sales.

Aston Martin has cut production, bringing in a three-day week at its factory in Gaydon, Warwickshire. The company said there were no redundancies amongst the 1, 850 employees and the situation would be reviewed.

Jaguar shut down its plant in Castle Bromwich, Birmingham for two weeks on January 19. The factory, which employs 2, 000 workers, had only re-opened the previous week after an extended Christmas shutdown. Jaguar has cut 450 jobs.

The Government has announced a £2. 3bn package of loans and loan guarantees to help the industry, and some extra support for training.

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UK new and used car sales fell to 8.3 million in 2009 from 8.8 million the previous year – 1.5 million units fewer than 2003's high of 9.8 million.

New car sales, which had been above the 2.5 million mark between 2002 and 2004, dropped by 6.4% to 1.99 million units last year, following an 11.3% fall in 2008.

Used car volumes fell to 6.3 million – a drop of 400,000 units on 2008.

Despite this, a strong and sustained recovery in used car selling prices helped overcome the downturn in volumes, pushing 2009's used car market value up by £1.8 billion to a new high of £34.2 billion.

Despite falling volumes, the 2009 new car market value at £28 billion remained on a par with the 2008 figure. Higher than inflation rises in new car prices offset the effect of lower new car volumes, a shift towards smaller cars and scrappage scheme and other marketing discounts.

However, in both 2008 and 2009, the used car market value has been significantly (£4 billion and £6 billion respectively) larger than the new car market value.