Car price report Car prices at 1/1/2008

Main highlights: cheaper cars in all Member States.

Consumers in all Members States have benefited from a significant decrease in car prices adjusted for headline inflation in 2007. This movement has been more pronounced in Member States with traditionally cheaper pre-tax prices, so that price differentials within the EU have somewhat increased. However, such a slight increase of price dispersion is not indicative of any potential consumer harm as it is mainly the result of generalised downward adjustments of car prices. Moreover, the current dispersion index is influenced by the change in the reference date for the car price report, by significant movements in EU currencies in 2007 and by the introduction of new tax regimes in several Member States, including new CO_2-related taxes.

Prices significantly declining in real terms

In a context of headline inflation pressures resulting from surging energy and food prices, nominal car prices have remained remarkably stable between January 2007 and January 2008 while they have appreciably declined in real terms to the benefit of consumers.

The EU price index for cars (reflecting actual prices paid by consumers, including VAT and registration taxes) increased by 0.2 %, against 3.4 % for headline inflation. The price change was also quite moderate in the euro zone (+0.6 %), significantly lower than headline inflation (+3.2 %). Among the high-volume markets car prices increased very moderately in Germany (+1.1 %) and Italy (+0.9 %), about 2 percentage points less than headline inflation. Only in France the new CO_2 related bonus/malus tax translated into a slightly higher increase of +2.5 % . Prices for cars decreased in Spain (-0.8 %) and in the UK (-1.1 %).

Furthermore, Member States with traditionally low pre-tax prices experienced a decrease in consumer prices for cars. This is especially the case for Finland — where indirect taxation for cars has been significantly alleviated for less polluting cars — which recorded a major price drop of -7.8 %). Car prices have also decreased in Denmark (-2.7 %), in Greece (-1.8 %) and in Portugal (-2.3 %).

On average, prices for cars decreased in the new Member States (-0.2 %) while significantly increasing for other products (+6.1 %). Car prices for instance decreased in Slovakia (-8.1 %), Slovenia (-5.3 %) and in Poland (-0.5 %).

Changes in national tax regimes and exchange rate volatility have resulted in a slight increase in price dispersion at EU level.

The dispersion indicator — the average standard deviation of prices — in the euro area (excluding Malta and Cyprus for reasons of comparability with the 2007 figures) has moderately increased by 0.3 percentage point to 4.8 % compared to 4.5 % in the car price report with prices as at 1 May 2007. When including Malta and Cyprus, — with pre-tax prices for cars in such countries being on average cheaper than in the rest of the euro area — price dispersion reaches 5.2 %.

This slight increase in price dispersion is however not detrimental to consumers since it is the result of a more pronounced price reduction in real terms in countries with traditionally cheaper pre-tax prices than in more expensive Member States, which have however also benefited from price cuts. For instance, prices have decreased in real terms by 1.8 % in Germany, where pre-tax prices are at the highest in the euro zone, and by 4.3 % in Finland, the cheapest euro-zone country.

It should also be mentioned that, from this year onwards, the car price report will be published only once a year and prices will be reported as of 1 January and not as of 1 May and 1 November as was previously the case. It results that the figures of this first report with a new reference date — influenced by seasonal commercial promotions in some Member States — are not directly comparable with those in previous reports and may tend to display higher price dispersion. In addition, the inclusion of the Korean brands Kia and Hyundai tends to increase the overall price dispersion across the EU.

Apart from such structural factors, prices in January 2008 have been influenced by tax changes in some Member States (e.g. Denmark, France, Finland, The Netherlands, Spain and Portugal). Whereas such changes usually have little impact in the pre-tax prices used to derive the price dispersion index, it seems that, in certain Member States where new CO_2-related taxes were introduced, manufacturers have "accompanied" these by granting further rebates to consumers that opted for less polluting cars. This has resulted in more national-specific pricing strategies. It is likely that once car manufacturers are more familiar with such new tax regimes, convergence will resume in the euro area and at EU level.

In the EU as a whole, price dispersion has increased by 0.5 percentage point, to 7.0 %. In addition to a differentiation in pricing strategies in line with national-specific tax changes, this increase results from strong movements in the currency markets that have affected prices of cars in euros. The Sterling Pound has, for instance, depreciated against the euro by almost 9 % between May 2007 and January 2008.

Cheap and expensive Member States

Within the euro area, Finland remains the cheapest country in terms of pre-tax prices (around a quarter of the 87 models of the report reach their euro-zone lows in Finland) followed by Greece and Slovenia. Both new Members of the euro area (Cyprus and Malta) are slightly below euro area average (ranking 6th and 7th in terms of low prices). In the EU as a whole, Denmark remains the cheapest country, with prices 4.4 % lower than in Finland, followed by Estonia (1.5 % lower than in Finland). Germany remains the most expensive country in the euro zone (27 models out of 87 in the report are sold in Germany at the highest price in the euro zone). The Czech Republic is the most expensive country in the EU-27, with prices 10.8 % higher than EU average and 4.5 % higher than in Germany.

Price dispersion across car segments

EU-wide, the impact of the exchange rates volatility has spread across car segments so that the price dispersion has increased more or less the same in all car segments. At euro area level, only the price dispersion for small cars (segment B) has increased across Member States (the dispersion indicator reaches 6.3 % for these segments compared to 5.4 % in previous report). It is likely that the timing of commercial promotions and tax specific discounts has more impact on this highly competitive mass market, so that manufacturers have applied more differentiated pricing strategies across Member States for this segment.

At manufacturers' level, in the euro area, Renault and Toyota prices have picked up whereas GM and Fiat groups have tended to decrease the dispersion of the prices of their cars across Member States. On average, Korean brands show more dispersed prices across the EU than other brands (8.1% for Kia and Hyundai together compared to 7.0 % on average for all brands).