

Main highlights: car price differentials across EU remain unchanged

The European Commission's latest report on car prices shows that price convergence across the EU as well as in the euro zone has remained largely unchanged during the first half of 2006. In the euro zone, pre-tax prices are generally lowest in Finland and most expensive in Germany. Looking at the EU as a whole, Denmark is least expensive on average followed by Hungary, which is the cheapest market among the new Member States.

Price differentials in the first half of 2006 remain stable confirming a longer-term trend towards price convergence across the EU. The standard deviation index is pointing at historically very low level of average price dispersion. In the majority of the new Member States, vehicle manufacturers seem to have adjusted prices for cars downwards, especially for smaller cars, which suggest not only that car prices across the EU have not tended to converge towards levels in high price countries, but also that carmakers have tried to reduce prices in the new Member States, especially for small-medium cars, so as to attract consumers with lower budget. In general, consumer price for cars have increased significantly less than headline inflation.

Convergence stabilises across EU

The latest report provides an indication that pre-tax price differentials across the Member States remain stable overall compared to the earlier Car price Reports released in March 2006 and August 2005, both in the euro zone and in EU-25. The dispersion indicator for the euro zone has remained unchanged at low levels over the last 2 years (4.4 %) and the EU-25 indicator has been virtually constant over the past 18 months (6.5 %). In addition, as shown in previous reports, price convergence in the euro zone remains greater than in the EU as a whole.

Within the EU-25, 598 out of 1 698 price quotes listed in the report show prices that exceed by 20 % the cheapest national market in the EU. This compares to 568 out of 1 722 in the February '06 issue of the report, and 579 out of 1 878 in the July '05 issue.

Of the 10 top best selling cars in the EU in 2005, the widest price difference in the euro zone is for the Ford Focus, which costs almost 30 % more in Germany than in Finland. This difference represents a potential saving of €4000 (including VAT) for the German consumer buying in Finland.

Cheap and expensive Member States

Within the euro zone, Finland remains the cheapest country in terms of pre-tax prices (more than a quarter of the 85 models of the report reach their euro-zone lows in Finland) followed by Greece. In the EU as a whole, Denmark remains the least expensive country, with prices 5.9 % lower than in Finland, followed by Hungary (5.5 % lower than in Finland). Germany remains the most expensive country in the euro zone (31 models out of 85 in the report are sold in Germany at the highest price in the euro zone). EU-wide, the Czech Republic has become the most expensive country, with prices 7.3 % higher than EU average.

More in general, new Member States still appear to be, on average, cheaper than "older" Member States (pre-tax prices in the report are, on average, 3.6 % lower in the new Member

States than in the euro zone). Whereas this gap has narrowed over the first year when the new Member States joined the EU (from 4.9 % in May 2004 to 3.4 % in May 2005), prices differences seem to have slightly increased during the first half of 2006. However, it should be noted that such a slight movement in relative prices seems to result from a general downward adjustment of retail prices in the new Member States, in line with budget constraints of consumers in these countries.

Price dispersion across car segments

As regards car segments, this overall stability actually hides two balancing trends: price dispersion for small and medium cars has increased whereas prices for larger and luxury cars have further converged. Such an increased volatility for small-medium cars seems to result from carmakers having somewhat reduced prices for small cars, particularly in the new Member States compared to the rest of EU, so as to attract consumers with lower budget. Conversely, carmakers have further approximated prices for luxury cars for which demand is more likely to resort to arbitrage. Thus, the average standard deviation for segment B (small cars) reaches 7.3 % compared to 7.1 % in the previous report and 4.9 % for segments E-F (executive and luxury cars) compared to 5.7 % in the previous report.

In line with this result, car manufacturers selling smaller cars display the highest price dispersion (GM, Renault, Fiat, PSA and the Japanese manufacturers) while luxury brands tend to have more limited price differences across countries (BMW, DaimlerChrysler).

Prices stable

Between May 2005 and May 2006, the EU price index for cars (reflecting actual prices paid by consumers, including VAT and registration taxes) increased by 0.8 % compared to 2.4 % for the headline inflation. The price increase was slightly higher in the euro zone (+1.4 %) but still lower than headline inflation (+2.5 %). Among the high-volume markets, car prices went up somewhat in Spain (+2.7 %), Italy (+1.5 %), Germany (+1.5 %) and France (+0.9 %) while decreasing in the UK (-0.5 %).

Furthermore, Member States with traditionally low pre-tax prices did not experience on average significant increases in consumer price for cars. Whereas car prices have increased in Portugal (+3.6 % more than headline inflation +2.9 %), they have decreased in Finland (-1.7 %), Denmark (-0.1 %) and Greece (-2.4 %). In general, prices for cars decreased in the new Member States (-3.1 %) while increasing for other products (+2.5 %). Car prices for instance sharply decreased in Hungary (- 4.1 %), Slovakia (- 7.6%) and Slovenia (- 8.1 %).

These price changes are consistent with the longer-term trend, which shows that, during recent years, prices for cars have tended to increase significantly less than the average price for the other products.