Main highlights: Car prices continued to fall in the EU in 2008 while price dispersion between Member States increased due to the crisis

Consumers in the vast majority of Member States have benefited from a significant decrease in car prices adjusted for headline inflation in 2008, as real prices decreased by 3.1% at the EU level.

As several EU currencies devalued strongly against the Euro and the economic crisis hit consumer confidence and demand to varying degrees in different Member States in the second half of 2008, price dispersion increased across the EU. However, this increased dispersion does not appear to reflect at this stage a fundamental change in the strategies followed by car manufacturers, which have been characterised in recent years by a long term trend towards a progressive reduction of price differentials within the EU.

Real car prices declined by 3.1% in the EU

In the context of a recession which deeply affected the car sector during the last half of 2008, real (i.e. inflation-adjusted) car prices declined in 23 out of 27 Member States between January 2008 and January 2009. The EU price index for cars (reflecting nominal prices paid by consumers, including VAT and registration taxes) decreased by 1.3%, against a 1.8% rise in overall prices, translating into a fall in real car prices of 3.1%.

Among the high volume markets, the UK was hit earlier than other countries by the economic crisis. The ensuing drop in consumer confidence and a strongly weakened demand combined with a 2.5 % reduction of the value added tax contributed to a massive fall of real car prices in the UK by 9.7%. Consumers in Germany, France and Spain enjoyed more moderate real price decreases (-0.9 %, -0.2% and -1.1% respectively), while real prices in Italy increased slightly against the EU-wide trend (+0.9%).

Prices in the Euro zone fell more moderately than in the EU as a whole. While the new Euro zone member Slovakia, formerly a high-price country, experienced the highest price decrease (-10.9%), followed by Finland (-7.3%) and Slovenia (-4.6%), prices in the major high volume markets, namely in Germany, France, Italy and Spain displayed much smaller movements. As a result, real prices in the Euro zone decreased by -0.9% compared to the -3.1% for the EU-27 average.

In the new Member States, where lower incomes have led a high share of consumers to opt for second hand cars, manufacturers are facing particularly price-sensitive consumers. As a result, real prices in this group of countries decreased significantly on average (-6.9%), most strongly in Latvia (-14.7%), Estonia (-14.2%), the Czech Republic (-13.0%), Malta (-10.8%), Lithuania (-10.7%) and Poland (-9.4%). Real prices increased only in Romania (+3.7%), where the Commission's consumer confidence indicator remained relatively high at the end of 2008 and where a car registration tax, which had been temporarily introduced in mid-2008[1] may have contributed to the price increase. Real prices in Hungary remained unchanged.

Broadly, the real price decrease of -3.1% in the EU confirms once again the long term trend of price decreases to the benefit of consumers in a context of increased competition between car manufacturers.

[1] See European Commission, DG ECFIN, Business and Consumer Survey Results, December 2008, Consumer Confidence Indicator, p.10.

Price dispersion has markedly increased at EU level due to strong currency turbulences at the end of the year and contingency-driven reactions to the crisis.

The economic crisis has had an unprecedented impact on price dispersion figures. The EU-wide dispersion in car prices increased significantly from 7.0% to 9.8% in January 2009. Price dispersion in the Euro zone rose from 5.2% in January 2008 to 5.9% in January 2009. When including the new Euro zone member Slovakia - with pre-tax prices on average cheaper than in the rest of the Euro zone – price dispersion reaches 6%.

It should be noted that the price convergence which had been observed until 2007 and the subsequent increase in price differentials brought about by the crisis, happened while the sector specific Motor Vehicle Block Exemption (Regulation 1400/2002) was in place. This would seem to indicate that the main factors influencing price dispersion are external market forces rather then sector specific regulation.

In particular, the crisis influenced the price dispersion indicators in several ways.

Firstly, and most importantly, the crisis entailed exchange rate turbulence in the last quarter of 2008 which consequently affected the EU-wide price dispersion figures. Several EU Member States, in particular the UK, Sweden and Poland, experienced a sharp fall in their currencies against the Euro (by -30%, -16% and -15% respectively by 1st January 2009 compared to 1st January 2008), thus triggering a corresponding sharp fall in Euro - denominated car prices in these countries.

Secondly, the economic crisis, which began with turmoil in the financial markets, was not felt by consumers in the various Member States to the same degree and at the same time. Therefore, consumer confidence and demand differed significantly between Member States. The Commission's European Economic sentiment indicator for December 2008 showed that, in the Euro zone, consumer confidence had not yet reached a low in a number of countries such as Germany, France and Italy[2] where car prices are historically higher than in other EU countries. By contrast at the end of 2008 the consumer confidence indicator hit the lowest point since the beginning of the 1990s in some low-price countries marked traditionally by high consumer price sensitivity, such as Finland. Therefore prices tended to decrease more in Euro zone countries with traditionally lower prices, with a subsequent rise in price dispersion. Moreover, because of the dramatic fall of consumer demand manufacturers were not in a position to raise prices in countries affected by currency devaluations.

Thirdly, manufacturers apparently reacted to the unprecedented fall in demand in those countries which were affected early by the economic downturn with contingency-driven strategies and very different degrees of price aggressiveness. It appears in particular that car manufacturers' strategies to counter the fall in demand were made up on a country by country basis and were met with different degrees of success. For example, manufacturers managed to stabilise car sales by substantive price decreases in some countries with low consumer confidence such as Finland, where new car registrations rose in 2008 by 11% compared to 2007. In other Member States registrations fell dramatically, notwithstanding manufacturers' aggressive sales efforts at the end of 2008, for example in Latvia (-41%).

Fourthly, it appears that certain Member States' measures designed to stimulate consumer demand in the light of the crisis, such as scrapping schemes, may have contributed to an increase in price dispersion, as car manufacturers were able to sustain prices in these countries at a higher level than what could have been expected in the absence of these measures.

Finally, it should also be noted that special price reductions and promotions have most probably proliferated during the crisis in an attempt to reduce the costs of growing stocks of

[2] See European Commission, DG ECFIN, Business and Consumer Survey Results, December 2008, Consumer Confidence Indicator, p.10.

unsold vehicles. Since the methodology followed in the Car Price Report analyses price dispersion indicators which are derived from the official lists of recommended prices issued by car manufacturers and do not reflect actual selling prices, it is possible that the higher incidence of special discounts and contingency-driven promotions may affect, for the present monitoring exercise, the robustness of the estimated price divergence at EU level. While it can be expected that arbitrage by consumers and intermediaries will continue to exert significant pressure on price differentials, the Commission will remain vigilant in case manufacturers were to try to prevent consumers from taking advantage of purchasing opportunities within the Single Market by obstructing parallel trade.

Cheap and expensive Member States

Within the Euro zone, Finland remains the cheapest country in terms of pre-tax prices (average list prices are 6.7% below the Euro zone average), followed by Greece (as in the previous year) and Slovenia. The new Member of the Euro zone, Slovakia, takes the fourth place. Overall, Member States' relative price ranking within the Euro zone remains broadly unchanged.

In the EU as a whole, the three Member States with currencies that devalued most dramatically against the Euro became the cheapest countries: In the first place the UK (with prices 19 % lower than in Finland, the least expensive Euro zone country), followed by Sweden (10.3 % lower than in Finland) and Poland (8.3% lower than in Finland). It should be noted that Denmark's currency did not devalue against the Euro in 2008. Therefore Denmark, which used to be the cheapest country within the EU, now takes fifth place regardless of the fact that its relative price position compared to the Euro zone remains broadly unchanged.

Despite enjoying real price decreases, Germany remains the most expensive country in the Euro zone and became the most expensive country in the EU (with prices 5.5% above the Euro zone average), followed by France and Belgium which became the second and third most expansive countries in both the Euro zone and the whole EU. The new position of Germany and France as most expensive countries not only in the Euro zone but also within the EU is explained by the fact that prices in formerly high price countries, namely the Czech Republic and Slovakia, have converged to the middle ground.

Price dispersion across car segments and manufacturers

In line with the developments indicated above, EU-wide price dispersion in all car segments has increased strongly due to the exchange rate effects. By contrast, and in line with the general trends, within the Euro zone[3] price dispersion across the segments increased much more moderately.

Large cars (segments E and F) continued to have the lowest price dispersion (the dispersion indicator reaches 3.4%, an increase of 0.7%). Dispersion increased most strongly in the compact car segment C (+1.2%) but remained virtually unchanged for small cars (segment B, +0.1%) within the Euro zone.

At manufacturer level, in the Euro zone (excluding Slovakia), price dispersion increased particularly among the Renault models (to 9.4%). On the other hand, dispersion did not change significantly for Fiat models stayed the same within the Fiat group and increased only slightly for Daimler and BMW models, so that Daimler and BMW continue to have the lowest dispersion indicators (2.4% each).

[3] For the sake of comparability the dispersion indicator does not include Slovakia, which joined the euro zone only in 2009.