

# The crisis in the automobile industry: strategic shortcomings shouldn't conceal the impact of fiscal austerity

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The crisis in the automobile industry, illustrated by the closure of the PSA site in Aulnay, reveals not only structural difficulties but also strategic errors made by the manufacturers with respect to their industrial organization and range positioning. The industry's need to restructure cannot, however, obscure the very real macroeconomic dimensions of the crisis in the short term.

New car registrations in France fell 15.5% in July on an annual basis, after adjusting for working days. In the first seven months of the year, the decline in the automotive market stood at 13.5% in unadjusted data and 14.1% in adjusted data. PSA was down 9.9% in July in terms of unadjusted data. The Renault group has seen its share of registrations fall by 11.2%, with a drop of 26.6% for the Renault brand but a near doubling of registrations for the low-cost Dacia brand. Also in July, the decline in new car sales in Spain accelerated, with a drop of 17.2%. In Italy, new car registrations plummeted 21.4%. Finally, while German production increased by 5% due to exports, new car registrations there fell by 5%.

These catastrophic figures are first and foremost the result of the collapse of aggregate demand in the countries of the European Union as a result of falling revenues combined with greater inequality in distribution. The middle class is

maintaining or increasing its savings rate and either deferring purchases in time or buying lower-cost products, particularly cars, while at the same time the increase in inequality has led to growth in the market for luxury vehicles, particularly in Europe and China.

It is not surprising, in this context, that PSA, which has a mid-range positioning, recorded a fall in sales and that Renault limited the damage only thanks to sales of its low-cost brand. Nor is it surprising to see strong growth for the Asian brands, Korean in particular, which are also positioned on the low-cost segment. Finally, it is not surprising that German manufacturers racked up exceptional results, as they are strongly positioned on the top of the range: BMW, Audi and Porsche recorded sales increases in the first half-year of 8%, 22.5% and 12.3%, respectively.

This state of affairs cannot of course absolve manufacturers of their strategic responsibilities, but it should lead the government to prioritize the underlying causes and, even more, to take the measure of what is needed in the short term, even while it continues to provide long-term support for the industry.

Nobody can doubt the relevance and effectiveness of the strategy adopted by Germany's firms, which is based on the international fragmentation of their production process, the conservation and development in the home country of their technological capacity and a better analysis of market expectations in the emerging economies, first of all China. This strategy proved to be especially successful as competitive devaluations became impossible with the advent of the single currency, an impossibility that has wound up exposing the errors in the positioning of their French competitors, including PSA, in light of the reality of global markets. The intensified rivalry between firms due to the steady weakening in European domestic demand, which has recently accelerated, could only lead to widening gaps in

performance in terms of sales volumes, market share and ultimately profit margins.

There is certainly no question but that the future of the French automobile industry requires a substantial effort at organizational and technological innovation together with the internationalization of production and the strengthening of local production relationships, as well as a search for market niches to make competition less price-sensitive. Public measures aimed at strengthening the production network through a site policy and support for outsourcing respond to this strategic challenge. The emphasis on the development of electric and hybrid vehicles is, however, questionable. The electric vehicle market could well remain marginal, and this will not change as a result of heavily subsidized prices to boost sales among specific urban groups. As for the market for hybrid vehicles, this is still limited in volume, and foreign (Japanese) competition already has a solid footing. Shouldn't we worry about the fate of mid-range vehicles: while their market is clearly suffering from the crisis in Europe, might it not thrive in Europe as it emerges from the crisis and even develop in the emerging economies as a genuine middle class emerges there? In other words, a productive recovery in the automotive sector, while it must involve improvements in quality, is still a matter of demand – and demand needs to be considered at a global level, with as a consequence the corresponding strategic choices concerning the location and segmentation of production activities.

In any event, a recovery in production in one direction or another will take time, and time is likely to be lacking if in the short term there is no pick-up in demand. In other words, the immediate problem is as much if not more macroeconomic rather than microeconomic. The surest way to bury the French automotive industry, thus losing an important accumulation of human capital, is to pursue a fiscal austerity policy that merely depresses demand without addressing the issue of

sovereign debt.