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Car Market Slowdown Hits U.S. Producers Hard

By The Moscow Times

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Ford salesmen in Russia will be pushing hard on SUVs, since that category represents 35 percent of the market. **Igor Tabakov**

WASHINGTON — A sharp drop in car sales in Russia is hitting U.S. automakers, including Ford and General Motors, particularly hard but could turn around in the second half of 2013, automotive experts said this week.

Sales of new cars and light commercial vehicles were down 11 percent this June compared to last June. It was the fourth straight month to see a drop and brings the overall decline so far this year to percent, according to the Association of European Businesses.

"I think it is obvious that, as a whole, the Russian car market is not in the best of shape at this point ... and that is clearly not what market participants had hoped for," Jörg Schreiber, chairman of the AEB Automobile Manufacturers Committee, said in a statement.

But U.S. automakers were hit harder than the overall AEB figures indicate.

GM's Russian sales were down 25 percent in June and 12 percent for the first half of 2013. Chrysler was down seven percent for both time periods. Ford was down 24 percent in June and 19 percent for the year so far.

"So far in 2013, Ford has not been performing well in Russia," Carol Thomas, an analyst with LMC Automotive, which tracks global sales and makes industry predictions, told RIA Novosti.

She added that Ford "is really counting heavily upon its SUV products for success in Russia, given that 35 percent of Russian car sales featured an SUV body style in the first few months of 2013. It will produce locally the Ecosport, Kuga [marketed as the Escape in the U.S.] and Explorer, which should result in market share gains over the next year or so."

Ford said earlier this month that it was stepping up production of SUVs in Russia. GM's individual brands have had varying success in the country so far this year.

The question now is whether the market can rebound in the second half of the year. Experts are optimistic, in part because car ownership is relatively low, which means there is potential for growth. More importantly, the government has confirmed that it plans to subsidize car loans again this year, as it has done in the past, though it is not clear exactly when the subsidies will begin.

"We hope these plans will be implemented quickly, for the expected positive effect to be felt in the coming months," said Schreiber.

Under the plan, new car buyers who choose a vehicle valued at $21,300 or less can have a government subsidy of two-thirds of the loan interest rate. The current rate is 8.25 percent, so the rate for qualified car buyers would be 5.5 percent, said Thomas.

"This has probably not helped the market over the last couple of months, as buyers may well have decided to hold back from purchasing a new car in anticipation of such support," she added.

The subsidies are likely to help the overall auto market, but they may not have as much impact as US manufacturers are hoping, said Tim Urquhart, a senior analyst at IHS Automotive, which tracks global market and economic information.

"There's no doubt that car sales in Russia have been dismal, and the overall market has fallen this year, obviously," Urquhart told RIA Novosti.

"But I would suggest some of the U.S. vehicles, the [Chevrolet] Cruz, for example, are a little bit long in the tooth, and the [Ford] Focus has also been on the market for a few years now. There's more competition and their rivals are cutting prices so the American cars don't have the same appeal," he said. "The subsidies might help, but it's not going to fix all their problems."

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