The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russians' Appetite for Luxury Cars Unbowed by Ruble Crisis

By Sam Skove

March 25, 2015



Luxury carmakers are also slower to adjust prices than more mainstream brands.

Russia's economic crisis hasn't touched Anna Kozyreva and Andrei Smirnov, a couple attending the grandiose opening of a Porsche auto dealership in Moscow this week.

In fact, Kozyreva and Smirnov said they were looking for their second Porsche, mostly likely a 4.5 million ruble ($78,500) Panamera sedan.

They are more the rule than the exception. Even as midrange brands are routed by Russia's currency crisis and oncoming recession, luxury carmakers are seeing sales grow. Manufacturers' price structuring, interest from the former Soviet Union and the ability of the rich to stay rich regardless of the crisis have kept brands like Mercedes and Porsche afloat even as others sink.

Bright Spot

Russia's overall car market will shrink by as much as 27 percent to 1.8 million units this year, car market analysts IHS Automotive said last month.

The contraction comes as the country's economy, pummeled by low oil prices and Western sanctions over Moscow's hand in the Ukraine crisis, looks set to shrink by up to 5 percent this year. Average real wages have fallen nearly 10 percent over the past year, while the ruble has dropped by some 40 percent against the U.S. dollar.

The effects are already starting to be felt in the car industry. The Association of European Businesses (AEB), a Moscow-based lobby group, said this month that February car sales fell nearly 38 percent year-on-year. General Motors brand Opel, which saw sales drop 82 percent in February according to the AEB, announced last week that it was leaving the market altogether.

The only bright spot is luxury. Porsche saw February sales up 92 percent, Mercedes-Benz up 16 percent, Lexus up 4 percent and BMW up 3 percent, the AEB said.

Less Sensitive

Unlike buyers for midrange cars like Opel's Astra, retailing for 624,000 rubles ($11,000), buyers for Porsche's 911, starting at 4.8 million rubles ($84,000) are simply "less sensitive to market turmoil" said Vladimir Bespalov, an industry analyst at investment group VTB Capital. These consumers, typically well-paid professionals, won't be washed away by the ruble's slump, according to Bespalov.

Luxury carmakers are also slower to adjust prices than more mainstream brands, he added, pushing those who were previously on the fence to make the leap and buy before prices skyrocket. Pre-orders just being delivered now and buyers coming in from the former Soviet Union, where cars are more expensive, may also be driving growth, he said.

Andrei Toptun, head of car market research agency Autostat, cautioned that some of the luxury segment's growth may be illusory. A buying frenzy during a run on the ruble in December emptied out most midrange car dealers, leaving them with nothing to sell in 2015, while luxury cars kept some stock left, thus allowing them to keep up sales in February, he said.

Still, luxury brands have suffered less than others, Toptun agreed, adding that the market was likely to experience true growth in spring, citing in particular the introduction of more moderately priced offerings from makers like BMW.

Growth Market

Russia's luxury car market will grow as Russia's middle class blooms, at least according to Felix Braeutigam, Porsche vice president in Europe. Porsche's target customers, he said, are top professionals and successful entrepreneurs, not Gazprom salarymen or government bigwigs.

Nor is the Ukraine crisis a factor: "Russia is, in my perception, part of Europe. [Political tension] is a hiccup," said Braeutigam.

The newly opened Sportcar-Center dealership, at 12,000 square meters the largest in Europe, is evidence of the big eyes Porsche has for Russia. Amid an event featuring a chamber orchestra, vintage Porsche race cars on display, and white-gloved service, eager Russians, mostly in their mid-30s, scoped out the newest issue of the 911 sports car.

But at least to judge by the midrange car brands in the parking lot, few present were actually oligarchs themselves. Rather, like Anna, a nutrition specialist, and Andrei, a financial analyst, they seemed to be drawn from the upper middle class.

Both analysts and Porsche are confident that this class will weather the recession with their wealth intact.

And the company is already looking to build the next generation of Russia's $100,000 sports car owners. The dealership opening was aggressively child friendly, and at least one middle-schooler was testing out the seat of a floor model Porsche sedan.

Putting them behind the wheel, sadly, is "legally not so easy to do," said general manager of Porsche Russland Thomas Sterzel.

Contact the author at s.skove@imedia.ru

Original url:
https://www.themoscowtimes.com/2015/03/25/russians-appetite-for-luxury-cars-unbowed-by-ruble-crisis-a45159