

DOWNTURN IN AUTO SALES CONTINUES

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Some mass media and internet resources reported a revival of the car market as banks cut auto loan rates. Yet, there are no grounds to state that lower car loan rates bode the market recovery. Keeping rates low is a requirement for boosting the market rather than a consequence of it. Key steps to revive the market are as follows:

- a minimum first payment and minimum loan application requirements;
- promotion of sales stimulation tools.

The both measures proved efficient in 2006-2008, the time of rapid development of the car market. Efficiency of such measures depends on policies led by banks that, on the one hand, seek to expand their customer base and increase loan portfolios, and, on the other, do not want to accumulate more bad debts. Another stimulus could be car manufacturers' attractive financial plans and bonuses – ranging from 'free' driver's kit to 'free' xenon headlights. Whether such programs will be optimized or not depends on automobile manufacturers and their target audience. But it is absolutely clear that bonus plans could promote car sales during the crisis.

Since the auto market can be hardly boosted without the above mentioned measures and since none of them is being undertaken, it is too early to say that the market is recovering. Continued decline in personal incomes worsens the situation.

At the same time, there are indirect signs of the upcoming market improvement. Popular in Russia Chevrolet, Mazda and Opel restyled some of their cars (Mazda3, Astra) and even unveiled new models (Chevrolet Cruze). Volkswagen launched a plant and will soon offer a wide range of VW and Skoda vehicles seeking to grab part of the Russian automobile market. After the plans to manufacture Opel Astra at a Shushary-based plant (St. Petersburg) region were dropped, GM said it was ready to assemble this popular model at Autotar (Kaliningrad region).

Meanwhile, AutoVAZ might benefit from a lean market as demand for economy-class cars usually grows when personal incomes fall. The Russian carmaker is backed up by the state (through subsidized rates, import fees on used foreign cars, financial injections¹ and a comparatively low price for the plant's top model, Lada Priora.

¹ The first state subsidy of 25 billion rubles is to be followed by another 55 billion rubles injection



The end of the car market turmoil will be heralded by several changes including lower auto loan rates, a reduced first payment, and softer requirements to loan applicants. Higher personal incomes are also a key to car sales improvement.

Carmakers who continue to renew their product lineups seem to be the only believers in a fast recovery of the market.