

FOREIGN CAR SALES DECLINE IN RUSSIA

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, December 11, 2008

Foreign car sales dropped in Russia first time in a long period of time. There are all grounds to assume that the November decline is only the beginning of a recession. The car market structure may change soon.

GM's Chevrolet witnessed sales falling 11% in November, Nissan - 31%, Ford - 21%. Total foreign car sales slumped 15% in November. In January-November 2008, sales climbed 31%, but the rise was caused by a robust demand before the crisis.

The market is cooling over a number of reasons. First, demand is declining because of job cuts, elimination of increments and bonus payments and concerns over lower incomes. Second, credit became more difficult to get as many banks restricted auto lending, toughened requirements and hiked loan rates. Third, carmakers announced price increases. Some have already raised prices: for instance, Toyota links prices to the dollar exchange rate, thus all Toyota models (including Lexus) will cost 7 to 9% more. Nissan and Mazda raised prices in September. Ford cars will be sold at a 5% higher price from January 1, 2009, AutoVAZ prices will grow 2 to 3%, Subaru is also set to increase prices.

Decreasing personal incomes and rising prices for popular foreign car models cause the economy models market share to grow. Economy cars include all AutoVAZ models and Renault Logan, Daewoo Nexia and Chevrolet Lanos.

Carmakers and dealers have stockpiles that are hard to be sold because of a decline in demand, so the New Year holiday will be extended. Consumers can expect sales promotions after the holiday.