

New automotive study

AID's Diesel Car Prospects to 2011

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Diesel inroads tipped to continue, but petrol-electric Hybrids on road to nowhere

Europe's diesel car sales are expected in the year 2011 to be notably higher than in 2006, when diesels accounted for the first time for more than half the new cars sold - Ongoing diesel car sales growth, accompanied for the first time by significant additional growth in many central European markets, followed by catch-up growth in Green-thinking Scandinavia, is judged to benefit in the main Europe's long-established diesel car specialists, according to a brand new AID study. Much-talked about petrol-electric hybrids are unlikely to move much above tiny 'also-ran' volume - Prius-type hybrids, the study says will be outgunned across the board by notably cheaper and generally more economical diesels - Likelihood of considerably tougher than earlier feared Euro 6 diesel exhaust emission levels - mainly on NOx side of things. Notably more ambitious EU CO₂ fleet average car economy levels, to be discussed soon by the EU, are judged likely to act as a further shot-in-the-arm for diesels from 2012 onwards

Europe's diesel car market, after outpacing the overall new car market by a very long stretch during the past half-decade at the direct expense of the forever shrinking market for petrol cars, is forecast to remain on trend. In short, diesel inroads will continue, but the year-on-year advance will get progressively slower. That's chiefly because most larger cars are already bought with more fuel economical diesels and future predicted diesel growth will be fuelled in the main by hitherto reluctant and price-conscious buyers of Small cars, a sector still dominated by notably cheaper petrol engined cars

AID's prediction of slowing diesel inroads into Europe's largely flat new car market is due chiefly to the view that most larger cars (Passat and above class), which benefit most from the 30 per cent plus fuel saving from today's diesels, are already bought with a diesel engine.

Future growth, in consequence, will come from further diesel inroads into the traditional bastion for petrol-powered cars, chiefly Small-sector cars in the Polo class and Basic-sector cars typified by the Citroen C1 and Fiat's Panda.

As diesels are bought principally to save car running costs, and the running-cost saving is biggest where the annual mileage travelled with the car is bigger, the initial

price premium paid for the same car with a diesel engine (today's average is 10 to 12% extra for the diesel-powered car) is soon made up by the car's lower consumption of fuel. However, as many Small- and Basic-sector cars are used mainly for short journeys (used principally as 2nd car in the household in Northern Europe), the extra cost of the diesel engine at the initial point of sale takes far longer to recoup. That's because the annual mileage travelled is well below average. Also, buyers of small cars are far more sensitive to price. Thus the extra price to be paid for the diesel engine version is often the single biggest disincentive to go for the more economical, but initially more expensive diesel-powered small car. However, changes are underway.

As fuel prices continue to spiral upwards, the case for initially more expensive small cars with a diesel engine is progressively strengthened

This was valid during recent years, but the steep rise in fuel forecourt prices seen during the past 18-months or so has gradually changed this equation.

More cost-conscious new car buyers are now taking an even closer look at their cars' running costs. So the case for small cars with more frugal diesel engines gets progressively stronger as fuel forecourt prices rise.

That 'sudden change' in formerly deeply entrenched consumer attitudes is perhaps best illustrated in the US. It is noticeable that US buyers, with today's virtual absence of diesel powered cars, have certainly not switched en-masse into much-hyped petrol-electric hybrids. And if given latest anecdotal evidence from the US, few carmakers, apart from pioneering Toyota, hold out much hope for the future US sales potential for these petrol-electric hybrids. The main reasons are that these cars are simply too expensive for price conscious US new car buyers. The other is, that all those interested to display their Green credentials to the world at large by driving a hybrid (many live in wealthy California) have already bought one. If true, future US demand for these hybrids will be far smaller than earlier anticipated. That, put into a nutshell, is today's view of many US industry thinkers, thus tempting many planners to scale down, stall, delay or put-on-ice earlier plans on bringing hybrids into volume production.

Even in the US, where today's petrol prices - at €0.51 per litre - remain well under half of today's German levels for example, fuel-conscious consumers are now switching in droves to more fuel-economical vehicles

This sudden rethink, sparked repeatedly by the alarming high cost of filling the tank of one's car, is perhaps best illustrated in today's US market, where all of a sudden consumers have started to switch in droves to more fuel economical vehicles. That's back to smaller and more compact cars to the detriment of thirsty SUVs and Pickups, or to similar size cars with less thirsty smaller 4-cylinder engines. Moreover, there is much hope and optimism now in European industry circles that the forthcoming and well oiled and orchestrated push into the US market with European-type diesels will fall on fertile ground.

And that in a country where today's average price of fuel remains well under half the price paid by German consumers today. US average price per litre of premium petrol (October 2006) is just €0.51 compared with around €1.20 in Germany.

Moreover, the likelihood now is that the EU will further lower the future 'Fleet average fuel consumption' in EU Europe from the earlier targeted 140 g/km in 2008 to a notably lower level in say 2012. Given that the industry is unlikely to make the voluntary earlier stated goal of 140 g/km by 2008, chances are that the EU will now feel compelled to introduce compulsory lower levels, which according to some commentators could be as low as 120 g/km. If it turns out that way, the car sales mix needs to be adjusted with a view to include a bigger proportion of more fuel-efficient cars. That is likely to include more small cars like VW's Polo BlueMotion - which in turn means more diesel-powered small cars.

The average official consumption for an 80PS 3-cylinder diesel-powered Polo BlueMotion is given at 3.9 litres per 100km, which translates into a CO₂ level of between 102-108g/km. That compares with a Toyota Petrol-electric Hybrid with an average consumption of 4.3 litres per 100km and a CO₂ level of 104g/km. Today's German list price of the Prius starts at €24,250, which compares to some €15,750 for the more fuel-economical Polo BlueMotion.

In the nine months to September this year Toyota Prius sales numbered 16,800 - that compares with 5.69 million new diesel car sales

The much-discussed issues of petrol-electric hybrids, taking up countless column inches in both US and German newspapers and magazines, are perhaps best summed up by today's actual eye-opening developments.

That's to say that for the past year in particular, when fuel-economy issues rose to the forefront of most motorists' minds, there is one thought that lingers.

For the past two years or so, the idea that hybrids could save the planet clearly rang through both the US and European media. By contrast, the stark and sobering message reaching top executive ears in hard-thinking car manufacturing circles was somewhat different. Joe Public, while deeply concerned about his cars' thirst for hugely expensive fuel, was not the least bit interested in these pricy hybrids. And that is, in the cold sobering light of day, why they simply didn't sell. PSA's CEO Jean-Martin Folz, asked by AID if he could see a future business case for petrol hybrids in Europe, said he could not.

Carlos Ghosn, much respected Renault CEO, spoke in effect for the entire automotive industry when saying: "Hybrids make a good [media] story, but they are not a good business story yet, because the value is lower than their cost". Not only the vast majority of fellow industry leaders such as PSA's Jean-Martin Folz, AID visionaries and trend forecasters, but also the bulk of Europe's new car buyers now say Amen to all that.

Footnote:

Although AID's highly topical new study predicts an ongoing rosy future for all well established players in the still bubbling and innovative diesel car business, the fruits of growth, however, will not be shared equally by all participants. While some carmakers, particularly those who first got this particular ball rolling will benefit further from growing future diesel car sales volume, most latecomers to this still sizzling scene, chiefly Japanese and Korean carmakers, will be left to fight over crumbs.

AID "Diesel Car Prospects to 2011"

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