

### **Main highlights: Car prices continue to fall across the EU, while converging between Member States**

*As in the previous years, consumers in the vast majority of Member States have benefited from a fall in car prices adjusted for headline inflation. In 2009, as real prices decreased by 0.6% at the EU level despite the price increasing effect of the additional demand generated by car renewal schemes in many Member States. Consumers in most new Member States benefited from the sharpest price reductions.*

*Price differentials between the EU Member States diminished markedly, supported by the appreciation of the British Pound and the Swedish Krona against the Euro, while price differences between the Euro zone countries increased slightly due mainly to the impact of national car renewal schemes.*

#### **Real car prices declined by 0.6% in the EU**

Following a sharp decline at the end of 2008 and the first half of 2009, demand for passenger cars picked up again in the second half of 2009, reflecting the cautious upturn of the overall EU economy, as well as the impact of fleet renewal schemes in 13 EU Member States. Despite these governmental interventions, which have increased significantly the demand for smaller cars, (and therefore, other things equal, potentially their prices), the EU price index for cars (reflecting nominal prices paid by consumers, including VAT and registration taxes) increased by only 1.1%, against a 1.7% rise in overall consumer prices, translating into a fall in real car prices of 0.6%.

Real car prices fell in 24 out of 27 Member States. In particular, apart from the case of the Netherlands where real prices remained stable, car prices rose in 2009 only in the UK (+7.7%) and Sweden (+2.7%), as a result from the appreciation of both countries' currencies vis-à-vis the Euro in 2009. However, it should be recalled that car buyers in both countries benefited from an extraordinary fall in prices (of -9.7% and -5.0% respectively) in 2008, so that consumers in the UK and Sweden are still better off today compared to the beginning of 2008.

Prices tended to decrease more strongly in the Euro Zone (-2.1%) than in the EU as a whole, partly due to the price increases in the non-Euro countries UK and Sweden. Similar to 2008, consumers in most of the new Member States enjoyed particularly strong price decreases. Real prices fell most markedly in Slovenia (-13.4%), Lithuania (-11.1%), Slovakia (-11.0%) and Romania (-10.1%).

Among the high volume markets, real prices decreased most notably in Spain (-4.7%), while Italy, Germany and France experienced more moderate price reductions (-1.1%, 1.0% and 0.6% respectively).

Broadly, the fall of real car prices across the EU confirms once more the favourable long term price trend, which supports the conclusion that intense competition between car manufacturers continues to benefit consumers in all Member States.

#### **Overall price dispersion between Member States decreased significantly, but increased slightly within the Euro zone**

Price differences between Member States fell significantly in 2009, with the average standard deviation going down from 9.8% to 8.5% (1.3%). This reduction was preceded in 2008 by a

sharp increase in price dispersion, which was caused by strong currency turbulences and contingency-driven reactions to the crisis. In 2009 this trend was partially reversed, namely as a result of the appreciation of the British Pound and the Swedish Krona against the Euro with the subsequent downwards impact on price differences.

Within the Euro zone, price dispersion increased slightly from 6.0% to 6.5% (+0.5%), caused mainly by price movements in the segment for smaller cars (segments A and B). These adjustments can be explained by the boost in demand for smaller cars generated by rather generous fleet renewal subsidies in certain, but not in all, Member States. In particular, such support measures were taken in those Member States within the Euro zone where car prices are traditionally higher, such as Germany and France. The additional demand generated by these schemes has prevented a stronger fall in real prices in these countries and thus led to a moderate increase of price dispersion within the Euro-zone.

Overall, price differences for passenger cars still appear to be quite moderate compared with other consumer products. For instance, in 2008, the EU-wide dispersion indicator for a basket of 16 food products amounted to 34.4%<sup>1</sup>.

### **Cheap and expensive Member States**

Within the Euro zone, Malta became the cheapest country in terms of pre-tax prices (average list prices were, in 2009, 6.9% below the Euro zone average)<sup>2</sup>, followed by Greece (which remained the 2nd cheapest market in the Euro zone, with prices 5.4% below the Euro zone average) and Finland (with prices of 5.3% below the Euro zone average, previously the least expensive country in the Euro zone).

In the EU as a whole, the United Kingdom remains the country with the lowest list prices for new cars, followed, as in the previous year, by Sweden, Denmark (previously the 5th cheapest country) and Poland (previously the 3rd cheapest country).

Germany remains the most expensive country in the EU, (with list prices of 6.0% above the Euro zone average), followed by Luxembourg and France, (with prices of 5.5% and 4.7% respectively above the Euro zone average).

### **Price dispersion across car segments and manufacturers**

In line with the developments indicated above, EU-wide price dispersion in most car segments has decreased significantly due to the exchange rate effects. By contrast, within the Euro zone price dispersion increased moderately overall. It remained broadly stable for larger cars as well in the compact segment, but increased markedly for smaller cars.

Large cars (segments E and F) continued to have the lowest price dispersion within the Euro zone, virtually unchanged compared to the previous year (the dispersion indicator remained quite stable at 3.7%, an increase of 0.2% compared to the previous year). The dispersion remained also stable in the compact car segment C (7.0%, an increase of 0.1%), but increased markedly for the smaller cars in the segments A and B (to 8% and 7.6% respectively, with increases of 1.3% and 0.8%).

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<sup>1</sup> Commission Staff Working Document COM (2009) 591: Improving price transparency along the food supply chain for consumers and policy makers, p.15.

<sup>2</sup> However, the ranking of Malta is based on the more limited range of models available in Malta.

In the light of the low Euro zone price dispersion for large cars, it is not surprising that at the manufacturer level price dispersion remains the lowest for BMW (2.9%, +0.4% compared to the previous year) and Mercedes (3.3%, +0.8% compared to the previous year). The other major manufacturers display price dispersions in the range between 6.3% and 7.5%.

In line with the overall trend, Euro zone price dispersion increased slightly for Fiat, Volkswagen and Toyota (with increases between 0.4% and 0.8%), and more markedly for Ford (+1.2%), while it decreased for Renault models (-1.9%), in contrast to the rise observed for Renault in the previous year. The dispersion indicator remained stable for General Motors (+0.1%) and PSA (+0.0%).