Major Automotive Global Trends of November 2023

On the background of "Iron Swords" War in Israel

December 2023

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1. Global

The global auto market keeps growing at a two-digit pace

In the past few months, the global auto market has seemed to be slowing down. Among other predictions, UBS and Fitch Rating estimated that the growth of EV sales in Europe will slow down in the short range.

Reports were also given regarding a growth slowdown in the American auto market, which led GM to postpone its' EV growth projections. In contrast, Ford waited for 12 billion US$ investments in EV development.

However, recent figures published in November reveal that from a global perspective, the growth of the EV segment continues. According to RHO Motion research firm data, 9.665 million BEVs and PHEVs were delivered globally in the first three quarters of the year – an increase of 36% compared with last year.

The data from the Chinese Association of Automobile Manufacturers (CAAM) reveal that the relative part of EVs in the Chinese market continues to grow. 5 of the 24 million new cars manufactured in China between January and the end of October (including vehicles for export) were BEVs, and an additional 2 million were PHEVs. As a result, the share of "New energy vehicles" as they are called in China, grew by an impressive 6.4% to 30% of all sales.

Current data from the Chinese Passenger Car Association (CPCA) published at the end of November show that sales in the EV segment continue to grow. In November, sales of "New energy cars" to private customers amounted to 820,000 units. An increase of 3.6% from October. Their penetration rate out of total sales that month was 39.4% compared with only 37% in October.

Analysts point out that lately, an inevitable slowdown in the growth of the EV market has been felt, stemming from high-interest rates and a prolonged recession. However, this is a temporary slowdown since countries and trade blocks worldwide continue to embrace a policy that encourages ZE transportation, which is the trend among auto manufacturers. Therefore, in the middle-long range, the transformation to EV is inevitable. Also, American and European auto manufacturers may be looking for reasons to decrease their investments in this segment, which for now returns limited profitability and diverts them to more extensive and more profitable ICE models.

The British government opted for a pessimistic approach and lowered its projection for EV penetration in the country by the end of the decade in November. The latest projections of the Office for Budget Responsibility (OBR) project that by 2027, only 38% of new cars sold in Britain will be electric. That is contrary to the previous projection published in March, which anticipated a penetration rate of 67%.

According to the Brits, the slowdown in growth is a result, among other things, of a rise in electricity prices, a decrease in fuel prices, and high-interest rates. The office claims that the latest decision of the British government to postpone the final date for selling ICE cars from 2030 to 2035 is also deterring customers from buying EVs.

In its new fiscal projection, the OBR determines that EVs are still more expensive than ICE cars, and the rate of closing the gap has slowed down. The rate of closing the price gaps, which was 15% between March 2020 and March 2022, has shrunk to only 6%. The OBR also warns that without home charging, the cost advantage of EVs "May reset to zero" and that "Many drivers are worried about the availability of public charging stations."

The global auto market keeps strengthening, but projections for 2024 are lukewarm

The global passenger car market kept its' growth trend in October, so reveals the monthly report of the Global Data research firm. According to the data, the projected yearly sales rate is now at 95 million units, an increase of 11% from October 2022, which was quite weak due to supply disruptions. Many key markets in the world demonstrated double-digit growth, and the Chinese market grew by 11% thanks to a leap in exports. Sales in Western Europe grew by 13% and in East Europe by 49%.

The report's editors mention that the projection for November remained strong, with an expected yearly rate of over 90 million units for the sixth month in a row. Such figures have not been seen since 2019. November deliveries are expected to be 7.8 million units, an increase of 11% from last November. Most of the growth comes from the Chinese market, where a fierce price war drives sales.

The editors state that while the market is still recovering, there is a certain chance that during 2024, world economies will slow down, a factor that adds pressure to the expected growth rate of next year. The projection for 2024 is currently 92.3 million units, a rise of only 3% from 2023. The market may be approaching exhaustion of the surplus demand since the COVID era unless there is a significant global car price reduction.

2. USA

Congress pressures Biden administration to enhance customs tax on cars imported from China

The IRA (Inflation Reduction Act) launched by the Biden administration, including canceling subsidies for EVs that are not manufactured in the US,

stopped or at least delayed the direct importation of many China-made cars into the USA. However, regional-political considerations left a large gap that enabled foreign vehicles manufactured in Mexico to enter the US and enjoy tax benefits. The Chinese auto industry hurried the entrance through the gap and, in the past two years, concentrated significant investments in manufacturing plants in Mexico. Now, the legislators in the US are aligning to close that gap.

During November, legislators from both parties approached the administration in a request to increase the tax imposed on importing Chinese cars into the US and form ways to prevent Chinese companies from indirectly exporting vehicles into the US via Mexico.

In a letter sent by the committee chairman for strategic competition with China in the American House of Representatives, he called to increase the current customs tax on Chinese-made cars, which was imposed during the Trump era and stands at 25%.

The letter emphasized the critical significance that the tax is not kept but also increased to restrain the expected growth in Chinese imports that the American Ministry of Trade forecasts. The letter also stated, "The United States Trade Representative (USTR) should consider opening an investigation into the damage already caused and potentially will cause the American auto industry and consolidate a practical response to the attempts of China to take over the global auto industry."

The American administration allocates billions of dollars to establish a local battery industry

In November, the Biden administration announced that it intends to allocate 3.5 billion US$ from the “National Infrastructure Act” budget to enhance local

production of batteries and materials for battery production within the US. The new budget is meant to support the formation of new plants and an expansion of existing facilities for battery raw-material processing and production of components, cells, and cases for Lithium batteries. Companies and ventures that wish to enjoy the new budget are required to present their requests by the end of March 2024.

Most raw materials and components currently used in the American auto industry are imported from foreign countries. The new funding is intended to enhance national confidence by lowering the dependence the US has on foreign companies, especially Chinese, and for creating new jobs.

The Ministry of Energy secretary said: "The US's ability to cater independently to the rising demand for advanced batteries is one way to enhance our global competitiveness, keeping and creating well-paid jobs and strengthening our clean energy economy." So far, the US government has given away 2.8 billion $ to twenty companies that announced their intention to build new factories or expand existing battery plants.

US auto market kept growing in November

New car sales in the American auto market are expected to be 1.236 million units in November. A 10.2% rise from last November, so estimates J.D. Power in its November forecast. The yearly sales projection is now at 15.5 million units, including sales to fleets, a rise of 1.4 million units from the projection of November last year. Car sales to private customers are expected to increase by 13% to 1.041 million units.

The editors of the report write that: "November sales testify to a strong market with a two-digit yearly growth and a new customers record for this month… the

increase in sales was enabled thanks to an improvement in inventories despite the disruptions caused by the union of auto workers (UAW) that lasted almost six weeks… the levels of retail inventory in November is expected to be 1.6 million units, an increase of 7.5% from last month and 43.7% compared with November 2022, although it is still lower by 40% compared with Pre-COVID levels.

The improvement in inventory is gradually lowering the average profit per unit for the dealers, which is still significantly higher than before COVID. In November, the dealer's average profit, including gross income, financing, and insurance, was 3,000$ per unit – lower by 28.7% from last year but still double the profit per unit than in November 2019. Only 21.4% of the cars sold in November were sold at a price higher than the MSRP, compared with 37% last November.

The average manufacturer incentives in November are expected to be 400$ higher than in October and significantly higher than last November. Discounts are currently at 4.6% from the MSRP, an increase of 2.3% compared with November 2023.

The average price for a new car sales deal in the US is expected to be $ 45,300$ in November, a drop of $ 900$ from November 2022. The previous monthly record – 47,362$ - was set in December 2022. Despite the shift to EVs, it turns out that trucks and SUVs are still the preferred segment for American customers with 79% of deliveries to private customers in November.
As for EVs, the forecast editors mention that sales in the year's first ten months were 56% higher than last year. They project that with market development and an expansion of the available models, EV share is expected to reach 13% by the end of 2024 and 19% by the end of 2025. That is compared with 9% in October this year. The editors also mention that it took the industry more than

ten years to sell the first million EVs but only 18 months to sell the second million and only 12 additional months to reach the third million, in October. According to the forecast, EV sales in the US will reach four million units by summer 2024.

3. China

Growth in sales but meager profitability in the Chinese auto market

According to the data of the Chinese Association of Automobile Manufacturers (CAAM) published in November, the market share of Chinese brands out of total sales, including ICE cars sales, between Jan-Oct was 55.3%, an increase of 6.6% compared with last year.

The financial scope of the Chinese auto manufacturers' sales in the first three quarters of the year was 106 billion US$, an increase of 10.4% compared with last year. However, according to their data, the net profit rose by only 0.1%, among other things, due to the fierce competition and the prolonged “Price war” that caused many manufacturers to announce discounts that sometimes caused losses. To maintain the prices, some large manufacturers, led by Tesla, cut discounts in the Chinese market and made structural changes in their competitive strategy.

Currently, there are 160 auto manufacturers in China, but their future is unclear due to the lack of sufficient profitability. A recent report by the American consulting firm Alix Partners forecasts that by 2030, less than 20% of the existing manufacturers will survive.

The Chinese Ministry of Industry and Information Technology is against the EU opening an investigation into the competitiveness of Chinese auto manufacturers

On November 15th, the Chinese Ministry of Industry and Information Technology (MIIT), which is the primary regulator of the Chinese auto industry, published a declaration of opinion in which it expressed its "Extreme dissatisfaction" with the EU's intention to open an investigation into a suspected subsidizing of the export of Chinese EVs into Europe. According to the ministry, "Such actions will disrupt and distort the global auto industry and its supply chain."

The ministry emphasized that the European auto industry has a long history of cooperation and many mutual interests. "The large auto manufacturers in the EU have production facilities in China, and it is the largest export market for many EU manufacturers… the global auto industry, leaning on efficient collaboration between different countries. The EV industry in China enjoys a technological collaboration and is part of the global auto industry supply chain while advancing the global emission reduction goal".

However, it seems that, at the same time, the Chinese industry is already looking for alternatives to direct export to Europe and the US. Auto giant BYD, currently the largest EV manufacturer in the world, stated last quarter that it intends to establish a vast EV manufacturing plant in Hungary, an EU member. Also, it is looking into building a battery plant, probably in the north of Spain. Additional battery manufacturers are also preparing for production in Europe.

Another move made by Chinese companies will turn South Korea into a base for manufacturing cars for export. In November, the Geely group announced it intends to start producing the electric SUV Polestar 4 in Busan, South Korea.

The plant in Busan was used until recently by Renault, which manufactured cars that were exported to the US and enjoyed the incentives given to Korean-made vehicles in the US.

4. Europe

Apparently, the European auto industry managed to soften the new EURO 7 legislation

In the past months, a fierce political battle has been waged in EU institutions regarding the future emission legislation EURO 7. As part of it, the lobby of the European auto industry launched its' entire arsenal in an attempt to block or at least moderate, the new regulation that tried to lower the CO2 emission standards and also to set strict standards for additional emissions such as NOx, PM, CO, and ammonia, and introducing new ways for measuring and lowering emissions from tires and brakes.

The auto manufacturers and the countries that supported them claimed that these were expensive and unnecessary regulations that would force manufacturers to divert resources from the shift to electricity and cause layoffs and closing of factories. During November, it seemed that the auto industry succeeded in its' attempts when the EU parliament passed a "Softened version" of the EURO 7 regulations. From the new version, it turns out that the manufacturers will not have to make essential changes to future models to meet them.

According to the agreed formula, the existing EURO 6 emission standards will remain valid in EURO 7 without distinguishing between petrol and diesel engines. Diesel, on the verge of extinction in Europe, will have to improve its emissions to be at par with petrol. In addition, the industry will receive a postponement for the implementation date beyond the original proposal, and

suggestions to aggravate emissions tests and add high emission “Scenarios” such as testing emissions of a cold engine, were canceled.

Now, the parliament is expected to start discussions with EU members to formulate the final version of the regulations. However, no other significant changes beyond the formula that was accepted in parliament are expected in Europe. The turn of events was positively accepted by the ACEA (European Automobile Manufacturers Association), which declared that it is: “Content with the realistic approach to EURO 7 regulations that passed in parliament”. On the other hand, representatives of the environmental lobby said, "It is a loss of opportunity to perform a significant reduction in emissions from vehicles, and the new regulations had turned into an updated version of EURO 6”. The lobby’s announcement said, "The adopted EURO 7 is useless. Car manufacturers will use it to stamp new models as ‘Green’ while they are barely cleaner than they are today”.

The EU continues to advance the initiative to secure self-supply of critical raw materials, including raw materials for the production of EV batteries

As part of Europe’s attempt to free itself from critical dependence on resources that come from China and exterior sources in general, the EU continues to advance a law that will ensure the accessibility of all member countries to a stable, sustainable, and reasonably priced supply of critical raw materials. The law is especially relevant to the supply chain of EV batteries, which is currently critically dependent on the supply of Lithium, Cobalt, and other components from China.

The proposal was presented first by the EU Commission in March this year. During November, an informal agreement was reached between the

commission and the parliament, paving the road to final approval towards the beginning of December.

The new law will determine minimal quotas for the extraction, processing, recycling, and production of critical raw materials within the EU. By 2030, the EU will supply up to 65% of the yearly consumption of these materials in Europe so that its dependence on exterior suppliers will be significantly reduced. It was also determined that 25% of all the raw materials produced that year would be recycled.

The parliament emphasized that the goal of the law is to reduce and optimize the demand via technological progress. In car batteries, for instance, the meaning is the development of technologies that require lower amounts of critical materials such as Lithium, Cobalt, and Nickel. Also, after the law is implemented, strategic projects in the areas of mining and quarries in the EU will be approved within 24 months instead of 10-15 years as it is today.

Besides lithium and cobalt, the EU aspires to add aluminum and synthetic graphite to the list of critical raw materials. It should be noted that in October, the Chinese government announced that it is adding graphite to the list of “Materials important to state security” and imposing strict limitations on its exports outside the country. Now, Europe is considering a reciprocal step.

Within the framework of the law, the EU Commission wants to supervise the supply chains of critical raw materials and enhance the coordination between member states regarding inventories of strategic materials.

Switzerland is joining a series of countries that are reducing the benefits of EVs

Next year, the exemption from purchasing tax for new EVs sold in Switzerland will be canceled, according to the country's federal parliament. All vehicles will be subjected to a regular 4% tax from January 1st, 2024.

Contrary to other countries that hide behind various arguments to decrease the benefits, the Swiss government openly argues that the move is intended to “Neutralize the loss of taxes caused by the shift of moving from purchasing petrol cars to tax-exempt EVs.” However, the regulator emphasized that the additional taxes will be allocated to the national fund for roads and urban transportation, which is in charge of maintaining the highways in the country and building new ones.

In explaining the decision, the parliament spokesperson said, "The picture of the EV market has thoroughly changed since the electric mobility revolution in the country began.” While in 2018, only 8,000 EVs were imported to Switzerland, in 2022, 45,000 were imported, and in the first half of 2023 alone, 30,400 new EVs were added – an increase of 66% compared with last year. The penetration rate of EVs out of the total imports in the first half of 2023 was 23%.

The parliament assessed that the loss of taxes caused by the shift to EVs in 2022 was 78 million francs (81 million euros), and in 2023, it is expected to double. The tax on new cars in Switzerland is based on the import price and not the final sale price. The parliament announcement said, "The ongoing reduction in the production costs of EVs will result in equal prices between EVs and ICE cars already in 2025. Therefore, given the rapid growth in EVs and the

convergence of the prices, there is no further need for government subsidies…”.

The decision was criticized severely by the country's auto sector representatives. The association of auto importers in Switzerland described it as “A black day for electric mobility” and said that “It stands in complete contrast to the CO2 emission reduction goals embraced by Switzerland as a long-term policy…according to the policy, the transportation sector has to reduce its’ CO2 emissions by 57% until 2040 compared with 2010… with anti-consumer decisions such as this, that come at the cost of those purchasing EVs from 2024 onwards, the goal is moving away… this is a negative signal at the time when the auto industry is trying to convince more and more customers to shift to ZE cars”.

The British government announced a new 4.5 billion BP investment in “Environmental” industries, out of which 2 billion BP in the auto industry

The British government continues its efforts to create the impression that it is leading Europe in the shift to ZE transportation. In November, the British treasury announced the allocation of a considerable sum of 4.5 billion BP (5.14 billion euros) for a plan to “Accelerate the growth of environmental industries.” The sum will be allocated for five years starting from 2025. From it, 2 billion BP will be streamed to the British auto industry to build an infrastructure for EV production and build a local supply chain, including independent manufacturing of batteries.

The declared goal of the plan is to enable the British government to exploit the growth opportunities that the shift to clean ZE energy entails. According to the government, “Britain continues to be a leader in emission reduction and is reducing emissions quicker than any other G7 country, since 1990”.

Parallel to the new funding, the government launched a new Hydrogen task force that looked into investment opportunities for the British industry in this area. The government announced that "Britain is the eighth largest industrial country in the world after recently passing France. To build on our success, we want to support sectors where Britain can become a world leader specifically". However, commentators say that these last announcements are merely attempts to soften the impression recently created when Britain decided to postpone the goal year to stop selling ICE cars.

ACEA figures: the European auto market kept growing in November. Cross-over models led to deliveries

Deliveries of passenger cars in the EU continue to grow despite the stagnation in Europe's large economies. According to ACEA figures published in November, passenger car deliveries in October were a million units, an increase of 14% compared with last October and the 15th consecutive month that shows an increase in sales.

The segments that demonstrated the most significant growth rate were medium and large SUVs, premium SUVs, and compact cross-overs, which registered 42%, 35%, and 32%, respectively. The medium SUV segment was led by an EV -Tesla Model Y – that reported an increase of 142% compared with last year.

EV deliveries in Europe continued to grow at a respectable pace of 36.3% and caught a share of 13% of all deliveries, compared with 12% last October. Their overall market share in the year's first ten months came to 14%. It is the first time EVs' market share surpasses that of diesel cars, which, in the first ten months of the year, was only 12% of total sales. The market share of Hybrids

out of full deliveries in October was 29%, and since the beginning of the year, it has been 33.4%. PHEVs caught a share of 28.6%, a drop of 5% compared with last year.

5. Israel

The Ministry of Finance and Environmental ministries are formulating an alternative plan to the "green tax" and for the tax benefits outline for EVs

The ministries of finance, environmental protection, and energy are expected to formulate by the end of Q1 2024 a continuation plan for the "Green tax" that will include an outline of benefits for EVs. The subject was deposited in the hands of a team from the three ministries, led by the finance ministry.

According to the current situation, the tax benefit outline that was presented in 2019 will expire in December 2024. Without an alternative outline, the default is canceling all benefits and determining a fixed purchasing tax for all imported passenger cars, 83%, before calculating the reductions according to each model's "Green grade."

The "Environmental" ministries believe that Israel will have a hard time justifying in international forums its' decision to cancel the benefits for EVs and charging the same tax for EVs and polluting vehicles. Also, according to estimates made by the Ministry for Environmental Protection, cancelation of the benefits at such an early stage of the market development will damage Israel's chances of meeting the national goal of reducing 95% of greenhouse gas emissions caused by transportation by 2030 (compared with 2015), to which the Israeli government committed by signing the international climate treaty.

It should be noted that this goal, determined at the beginning of the decade, is still valid and was officially presented in November during the UN's climate conference in Dubai. According to the annual monitoring report on Israel's compliance with this policy that was published by the Ministry of Environmental Protection in April 2023, at the current pace, by 2030, the average greenhouse emissions from passenger cars will drop by only 36% instead of the planned 95%. That results from the bias towards petrol cars that are still cheaper to produce and market.

Among other things, the team is looking into extending the final phase of the current outline by a year or two to purchase tax reductions. That is, to set the purchasing tax for EVs at 35% from January 2024 as an intermediate step. At the same time, it is mulling the possibility of extending the tax benefit outline for EVs as part of a completely new plan for green taxing that is being looked into by the Ministry of Finance and will be based solely on CO2 emissions instead of an aggregate of different pollutants as it is today. In addition, an "Average emission quota" will be imposed on auto importers. However, according to assessments, the schedule for a complete change in green taxing is too short and it is doubtful that it will be feasible by the beginning of 2025.

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