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# German auto industry

## Too much gravity

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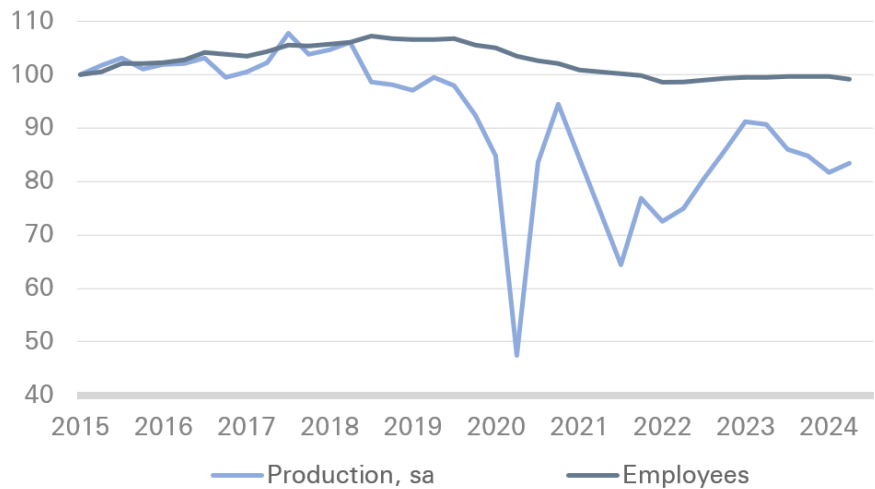
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Volkswagen's recent public considerations to possibly shut down plants in Germany and lay off employees for operational reasons came like a bombshell. Nevertheless, we have been pointing out for some time that the balance between production and employment in the automotive industry in Germany is disturbed. Currently, domestic production (production index) is almost 23% below previous highs. Although employment has also fallen in recent years, the decline versus the former peak is, at -8%, significantly smaller. This indicates a fall in productivity.

### Employment in the automotive industry likely to come down

Automotive industry in Germany, Jan. 2015=100



Source: Federal Statistical Office

We have argued that the decline in domestic automotive production is partly structural. Among other things, it is related to the shift towards electric mobility, which we expect will cost net value added in Germany. It is also becoming apparent that German car manufacturers are concentrating more on the premium segment and reducing the production of cars in the volume segment, at least in Germany. This is due to cost disadvantages compared to other locations. In this [report](#) from 2021, we argued that the production of "everyman cars" may come under pressure in high-wage countries such as Germany.



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In addition, demand for electric cars in Europe is currently weak. Many of the easily persuaded customers have already decided to buy an electric car. However, other potential car buyers are currently cautious. Therefore, the industry's high investments in converting its plants are not yet paying off. Capacity utilisation in the automotive industry has fallen to its lowest level since the COVID-19 crisis, according to data reported in Q3 2024. We do expect that demand for electric cars will increase again sooner or later due to expected technological progress. However, given the current circumstances, it is not surprising that there are discussions about prospective job cuts in the industry. These are likely to be even more intense in the supplier industry, even though they will not always make the media headlines.

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