

Downturn puts brake on Russia car boom

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Russia's once febrile car market is cooling in a development that could hurt struggling global carmakers in an already difficult year.

The past week's stock market turmoil and falling price of oil -Russia's economic mainstay - have left some manufacturers concerned.

Demand for cars is also slowing in China, India and Brazil, the other three big markets that until now have helped carmakers make up for flagging demand in the US, western Europe and Japan.

Analysts who cover the sector are revisiting bullish sales estimates for a country that bought 2.5m cars last year and will soon replace Germany as Europe's largest car market.

"If the oil price continues to tick down, confidence will take a hit in Russia," said Carol Thomas, central and eastern Europe sales analyst with consultancy JD Power & Associates.

In August, car sales in Russia -damaged by the hit to sentiment following the conflict in Georgia, among other factors - grew 6 per cent year on year, down from 22 per cent in July, according to JD Power.

Previously buoyant car sales in central European countries, including Poland and the Czech Republic, fell 9.3 per cent last month, according to the European Automobile Manufacturers' Association.

"These regions have been offsetting the slowdown in western Europe," said Stuart Pearson, analyst with Credit Suisse in London. "That might now become more difficult."

Detroit's carmakers have reaped rich pickings in Russia, where General Motors' Chevrolet is the top-selling foreign brand and Ford's Focus the best-selling non-Russian car.

France's Renault owns a blocking share in Avtovaz, maker of Lada brand cars, and Russia is one of the top two European markets for Nissan, its Japanese alliance partner.

Carmakers had until recently spoken of a decoupling of mature car markets from emerging ones where millions of people are buying their first cars.

However, monthly car sales are down year-on-year in India and China, and growth is flattening in Brazil.

Beijing this month raised tax on cars with larger engines in a move that is likely to hit sales of foreign luxury brands.

Analysts warned that August was a slow month for retail sales.

Most still expect Russia's car market to hit double-digit growth year on year.

"We don't see [Russia] falling drastically like European markets," said Walt Madeira, London-based manager for sales forecasting at CSM Worldwide. "It's just too big, and they do have quite a lot of money."

However, slower growth may muddle carmakers' business plans as they build new plants.

GM, Hyundai, Nissan and Suzuki are all due to open factories in St Petersburg, and PSA Peugeot Citroën and Mitsubishi are building a plant in Kaluga, southwest of Moscow, where Volkswagen has a factory.

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