Recent Developments in the European Car Market and Auto ABS Issuance Activity

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Management Summary

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1.

Global car sales witnessed modest growth in 1H24, reflecting the uncertainties in the global economy due to geopolitical tensions and changing central bank policies. These challenges hurt consumer sentiment, leading to lower growth in passenger car registrations than in 1H23, which had benefited from pent-up demand and improved supply chain conditions. New car registrations in Europe increased by 4.7% y-o-y due to elevated vehicle prices and stringent emission norms. The situation looked tougher in the US, with 4.3% y-o-y lower passenger vehicle registration in 1H24. Meanwhile, with the Chinese economy witnessing some recovery, new passenger vehicle registrations increased by 6.1% y-o-y, fueled by stronger domestic demand. Similarly, India reported a 7.3% y-o-y rise in new car registrations, supported by the launch of new models.

2.

European automakers' efforts towards transition to environment-friendly vehicles also witnessed some setbacks. During 1H24, hybrid-electric vehicles (HEV) remained the most attractive option among the EV segments. Further ambiguity related to the government policies for EVs decreased customers' confidence overall. Additionally, restrictions on non-Europe imports, along with lower subsidies, drove vehicle prices in major countries of Europe.

3.

Though supply chain constraints eased in 2024, production volumes of passenger cars still decreased, due to lower demand and strict safety regulations. Moreover, despite the hesitance of customers towards EV adaptation, the governments in the UK and Germany are encouraging producers to develop new EV models. Production declined by 7.6% y-o-y in the UK as producers started the transition process. Likewise, production fell by 6.4% y-o-y in Germany due to lower demand.

4.

Used car transactions increased in all the five major European markets in 1H24. Overall, the used car segment experienced a higher number of transactions than the new car market. However, in all five markets, Germany, France, Spain, Italy, and the UK, the supply of used cars has been higher than the demand, resulting in a decline in residual values.

5.

In 1H24, auto ABS issuances totaled 9.1bn euros, down 36.3% y-o-y. This was the lowest issuance volume in over a decade. Germany remained the leading market, accounting for nearly one-third of the total issuances. France and the UK gained some ground, with market shares of approximately 16.7% and 14.6%, respectively. In contrast, Spain, Italy, and other peripheral European countries saw a significant drop in their issuance shares.

6.

Captives' market share of new issuance volumes in 1H24 surged to 82.3%, approaching the decadal average. Volkswagen emerged as the leading Auto Asset-Backed Securities (ABS) originator. Also, BMW's market position strengthened, along with Renault and Daimler being other active issuers during the period. By contrast, non-captive players lost their market share significantly, with major players being inactive in 1H24.

7.

Over the past few years, the cumulative share of AAA-rated issuances has been steadily declining. However, the current year's issuance shows a positive trend, with the share now reaching 81.9%. The proportion of AA-rated issuances remains robust, accounting for 15.9%. In contrast, the volume at the lower end of the investment-grade spectrum (A) and below has dropped to 2.2%.

8.

Europe's economic outlook remains constructive despite ongoing geopolitical tensions. Improvements in financial conditions are expected to benefit economic growth. Modest growth in new car sales is anticipated, which could create opportunities for the used car market. However, the risk of downward pressure on used car values persists due to the potential oversupply of new models. Despite these challenges, the Auto Asset-Backed Securities (ABS) market remains resilient. It is supported by steady issuance, manageable delinquency rates, and increasing demand for electric vehicles (EVs). Low default rates, high residual values, and the stabilization of supply chains further sustain investor interest. While the Auto ABS market is set for a stable second half of 2024, overall issuance levels of 2024 may fall short of those seen in 2023.

1. The European car market at a glance

New car registrations normalize after the 2023 rebound

With the pandemic moving out of the picture, the global economy continued to navigate through the uncertainties tied to geopolitical risks and initiated shifts in major central banks' monetary policies. The world gradually recuperated from the negative impact of the Russia-Ukraine war and the easing up of supply chain disruptions, with inflation rates retreating from very high levels amid lower energy prices. After a strong rebound of 14.5% in 2023, the new car registrations experienced a slower pace more recently.

This is partly due to the cooling of consumer demand following the post-COVID rebound, coupled with a challenging economic landscape, persistently high interest rates, and ongoing uncertainty around global environmental policies and geopolitical developments. Overall, the new car market remained fairly resilient in the first half of 2024. Notably, used cars became more appealing again as prices began to decline with improved inventory levels.

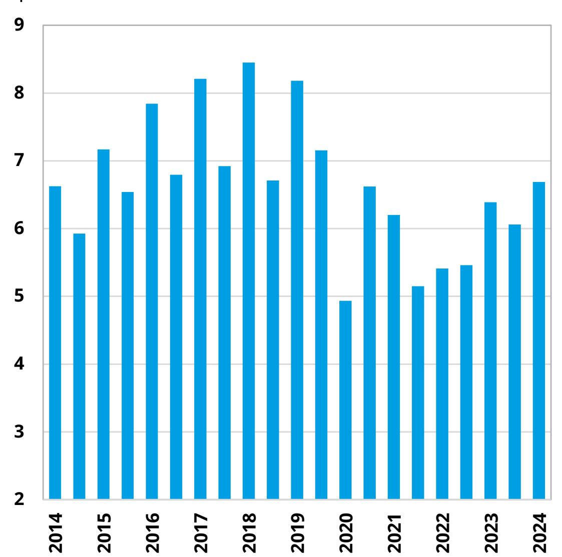
In the **US**, the Federal Reserve's decision to maintain interest rates elevated throughout the period to control inflation significantly affected consumer purchasing power. Worsening labor market conditions further exacerbated the situation, leading to a 4.3% y-o-y decline in passenger vehicle demand to 1.5mn units in 1H24.

China's car sales increased 6.1% y-o-y to 14.0mn units in 1H24, as per the China Association of Automobile Manufacturers (CAAM). The growth was anchored by higher domestic demand, especially for EVs, and favorable policies. By contrast, exports of EVs were modest compared to internal combustion engine (ICE) cars. Going forward, supportive policy implementations for trade-in, promotion of EVs in rural regions, and the introduction of new car models should encourage automobile consumption in China.

Similarly, according to the latest sales data from the Society of Indian Automobile Manufacturers (SIAM), **Indian** passenger vehicle sales increased by 7.3% y-o-y in 1H24, benefitting from the introduction of new models and a rising preference for individual mobility. However, EV adoption continues to be relatively slow, with petrol vehicles continuing to dominate with a market share of approximately 75%.

Figure 1: European new car registrations continued their upward trend

New car registrations in million units, bi-annual data, Europe ⇔ EU27+UK



Source: ACEA, Creditreform Rating

Drawing on data from the European Automobile Manufacturers' Association (ACEA), new passenger car registrations in **Europe** (EU27+UK) rose by 4.7% y-o-y in 1H24 (see Figure 1), mainly on the back of strong sales volumes of hybrid vehicles. Sales of hybrids (excluding plug-in hybrids (PHEV)) grew by 21.2% y-o-y, capturing nearly 30% of the market. In comparison, battery electric vehicle (BEV) sales increased by only 2.7%.

The overall growth rate was notably lower than the 18.1% recorded in 1H23, primarily due to a more challenging operating environment, which included stricter emissions regulations, and rising vehicle prices. Moreover, European carmakers committed to electric vehicle (EV) production face challenges due to reduced government incentives and affordability issues for low-income buyers, while 1H23 growth figures were inflated by the post-pandemic rise in newer models at better prices, along with appealing incentive packages available across all markets.

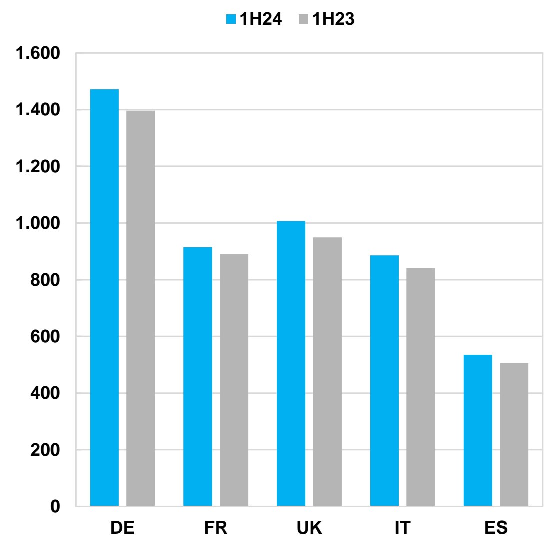
During the first half of this year, the UK and Spain led the way in driving moderate growth in new car registrations across Europe. Germany, the largest market by volume, also saw an increase in sales, with a strong performance in the first half of 2024. Similarly, Italy and France experienced steady growth in new car sales. Looking ahead, the European market is expected to maintain its moderate upward trend.

In the **UK**, the new car registrations exceeded the million mark as sales volumes rose by 6.0% y-o-y to 1,006,763 units (see Figure 2), according to the latest data from the Society of Motor Manufacturers and Traders (SMMT). EVs witnessed notable growth compared to combustion engines due to environmental concerns. PHEV sales surged by 31.2% y-o-y, capturing an 8.1% market share, while HEV also saw a substantial increase of 17.4% y-o-y (13.7% market share).

Concurrently, BEVs experienced more modest growth at 9.2% y-o-y due to a decrease in private BEV uptake, with less than one in five new BEVs purchased by private buyers. The performance was partly attributable to a downward trend in private retail demand for nine consecutive months. While BEVs comprised 16.6% of the new car market (1H23: 16.1%), the uptake remained below government targets. Overall, retail buyers accounted for less than four out of ten new car registrations, representing 37.7% of the market. The UK's transition to Zero-Emission Vehicles (ZEVs) and manufacturers' ability to meet the Vehicle Emissions Trading Scheme requirements are therefore highly dependent on the fleet sector.

Figure 2: Modest growth in new passenger car registrations across all major European economies

In thousand units, y-o-y change in %



Sources: ACEA, Creditreform Rating

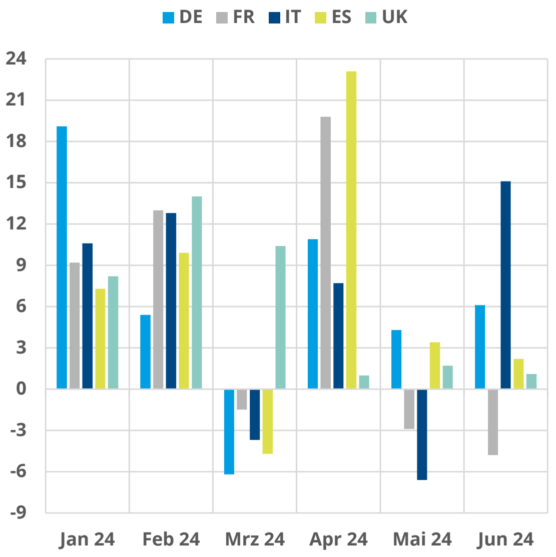
The UK's automotive industry is also looking to the new government for more support to help consumers transition to zero-emission mobility. One proposed measure is to reinstate fiscal incentives for private consumers, such as halving the VAT on BEVs for three years. This could revitalize the market, potentially adding 300,000 private BEVs to the roads over the next three years, in addition to current projections. This increase would contribute to the goal of having half of all cars be zero-emission by 2035, reducing road transport CO2 emissions by 175mn tons during this period. Furthermore, Vehicle Excise Duty plans need to be revised to classify ZEVs as essential rather than luxury items. This would involve amending the 'expensive car' supplement set to be applied next April. Additionally, making public charge point usage fairer by reducing VAT

from 20% to 5% and aligning it with home charging rates could further support ZEV adoption and send a positive message to consumers.

In **Germany**, total new car registrations rose by 5.4% y-o-y (see Figure 3), primarily driven by increased demand for petrol and diesel cars, which saw respective growth rates of 7.4% y-o-y and 8.9% y-o-y. Unlike in other major European markets, fuel-powered vehicles are reinstituting market share in Germany as customers' skepticism about e-mobility appears to increase.

Figure 3: Sales remain volatile during 1H24 amidst political and regulatory uncertainty

Sales in selected economies, y-o-y change in %



Sources: ACEA, Creditreform Rating

PHEV and HEV remained appealing to customers thanks to their flexibility. However, the BEV seems to have lost its appeal, resulting in a decline in sales of 16.4% y-o-y. The abrupt end of government subsidies, supply chain disruptions, and sluggish economic conditions led to a drop in demand. Also, customers remained demotivated towards EVs due to the lack of low-cost EV options in the country as a result of tensions between China and Europe.

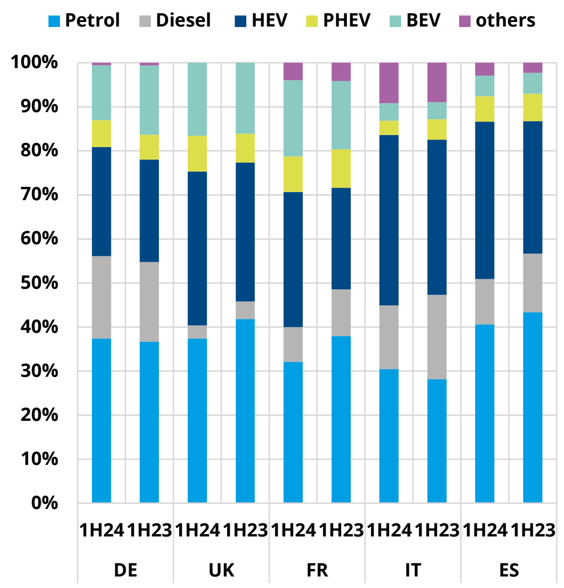
In **France**, new car registrations increased at a modest pace of 2.8% y-o-y (see Figure 3) as uncertainty about future automotive policies under the new government kept potential buyers away from the market. Vehicle sales declined in three out of the last six months in France, with consecutive declines in the previous two months of 1H24. Interestingly, PHEVs experienced a decrease of 5.5% y-o-y, contrasting with the growth of 14.9% y-o-y for BEVs and 36.8% y-o-y for HEVs. These trends were due to BEV's favorable subsidies in France, with subsidies worth 7000 euros for lower income groups and 4000 euros for other households. Additionally, the removal of non-EU imports from eligibility due to higher carbon footprints impacted the overall prices of EVs.

In contrast to the scenario in France, Prime Minister Meloni's government in **Italy** introduced anticipated subsidies, revitalizing the BEV segment, especially in June. This, combined with higher demand for petrol vehicles, supported the 5.4% y-o-y increase in new car registrations (see Figure 3). However, a notable decline of 25.4% y-o-y was observed in only PHEVs owing to lower subsidies provided compared to BEVs. BEVs offer higher incentives than PHEVs, especially with lower ISEE thresholds and scrappage. BEVs with scrappage can receive up to 13,750 euros, while PHEVs max out at 10,000 euros.

In **Spain**, fuel-type vehicles, especially diesel, have also lost market share because of stricter emissions regulations and negative perceptions. Meanwhile, BEV witnessed a modest growth of 5.2% y-o-y. Comparatively, the HEV performance was the best, with 25.8% y-o-y, thanks to a balance between fuel efficiency and convenience that appealed to a larger audience. That said, the overall number of new car registrations increased by a relatively high 5.9% y-o-y during the period.

Figure 4: HEVs are gaining market share, while diesel vehicles are steadily losing ground

Percentage share in total new registrations



Sources: ACEA, Creditreform Rating

In Europe as a whole (including the UK), new BEV registrations witnessed a 2.7% y-o-y growth (see Figure 4), which was significantly lower than the previous year's growth. Although demand for BEVs remained volatile, it succeeded as the third most attractive option, capturing 13.1% of the market share by June 2024. The main reasons for BEV's inability to capture consumer interest more recently were changing government policies, a lack of supporting infrastructure, and the imposition of tariffs on Chinese-made automobiles, which drove up prices.

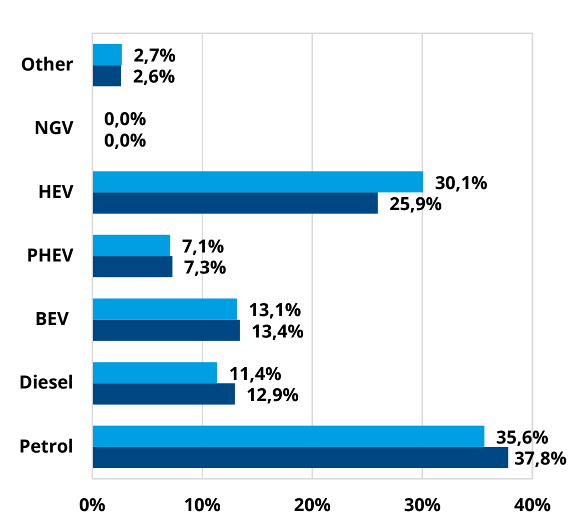
Similar to BEVs, the market share of PHEVs also remained stable at 7.1% compared to 1H23. Customer responses to PHEVs were mixed, with robust growth in Germany (+13.3 % y-o-y) and the UK (+31.2% y-o-y) contrasted with declining demand in Italy, Spain, and France.

Notably, HEVs remained the second most popular choice in the market, capturing a significant share due to their versatility, coming to 30.1%. In 1H24, the increase in demand for HEV was the highest compared to the other segments, recording a growth of 21.4% y-o-y. The number of new HEV registrations in major European markets remained robust, with particularly dynamic growth in France (+36.8% y-o-y) and Spain (+25.8% y-o-y).

Considering the ICE models, petrol cars maintained market leadership with a 36.0% share, while new car registrations remained almost stable. On the other hand, diesel vehicles continued to lose ground amid growing concerns about CO2 emissions (see Figure 5). The EU's envisaged prohibition of new petrol and diesel car sales by 2035 to achieve a net-zero emissions goal by 2050 could further reduce the market share of diesel vehicles and, in turn, boost the market for EVs.

Figure 5: ICE sales plummeting, while HEV reporting robust growth

Percentage share in total new registrations, Europe



Sources: ACEA, Creditreform Rating

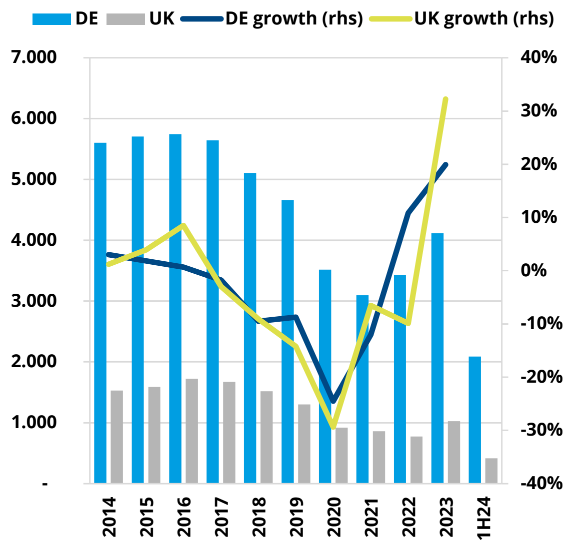
Car production struggles to catch up with pre-pandemic levels

After witnessing a few green shoots in 2023 (see Figure 6), the passenger car manufacturing sector reported a significant decline in 1H24. Pro-

duction volumes of passenger cars declined, signaling a negative shift in the industry. As a result, Original Equipment Manufacturers (OEMs) face increasing challenges in reaching pre-pandemic production levels. While supply-side friction has subsided, lower demand for new vehicles demotivated OEMs to increase their production more recently.

Figure 6: Deteriorating car production volumes owing to lower demand

Production in thousand units, y-o-y changes in %



Sources: VDA, SMMT, Creditreform Rating

In addition, manufacturers have started investing in the transformation of the factories against the backdrop of the environment-friendly norms issued by the respective national governments. While market sentiment regarding the green transitions remains volatile, governments are trying to incentivize manufacturers to innovate and produce more EVs.

In 2023, the UK government unveiled a €23.7 billion investment aimed at encouraging manufacturers to focus on developing EV models. This led to a 7.6% year-on-year reduction in the production of existing models during the first half of 2024. Looking ahead, the development of gigafactories is expected to accelerate battery production for EVs. Additionally, a carbon-neutral energy supply and an efficient planning system will give the country's OEMs a competitive advantage against international competitors.

Germany's automotive industry experienced a significant 6.4% y-o-y decline in production volumes. Despite substantial investments in the shift toward green vehicles, the new car registration figures for the first half of 2024 tell a different story, with sales of plug-in hybrid and battery electric vehicles falling. This unpredictable demand has left German manufacturers uncertain about future market trends. Adding to their challenges, upcoming vehicle safety regulations, which will restrict the sale of non-compliant models after 7 July 2024, pose another hurdle for EU automakers.

Stability and shifts: the evolving landscape of Europe's used car market

The European used car market exhibited modest growth in the first half of 2024, with countries such as Italy seeing an 8.7% y-o-y rise in transactions. However, despite this resilience, the market faces significant challenges for EV sellers and shows diverse trends across regions and vehicle types, making it a complex environment for dealers and consumers alike.

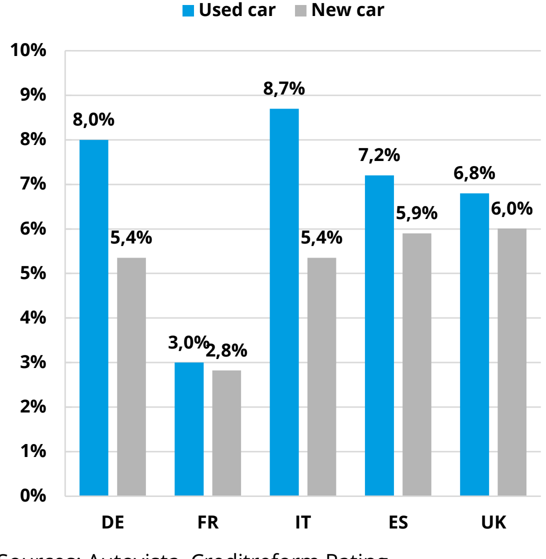
Notably, the latest available data indicates that hybrid vehicles are gaining in popularity and the only segment to experience consistent growth across multiple markets. This trend highlights a shift in consumer preferences toward more fuel-efficient and environmentally friendly options. On the other hand, the used EV market is encountering significant difficulties, with prices plummeting nearly 25% since early 2023, in contrast to a 10% drop for gasoline-powered vehicles during the same period.

The used car market is closely linked to new car registrations. As older vehicles are traded in for newer models, they eventually enter the second-

hand market, increasing the availability of used cars. However, for the first time since 2021, all five of Europe's largest used car markets have shown positive growth, surpassing the performance of new car registrations, as affordability has emerged as a primary concern for customers (see Figure 7). With buyers' purchasing power continuing to be affected by elevated inflation, political uncertainty, slower economic growth, and global monetary tightening, used cars have become increasingly attractive in terms of affordability.

Figure 7: Used Car market outperformed the new car registration

Used car transactions and new car registrations, y-o-y change in % during 1H24, Q2-24 used car figures for France



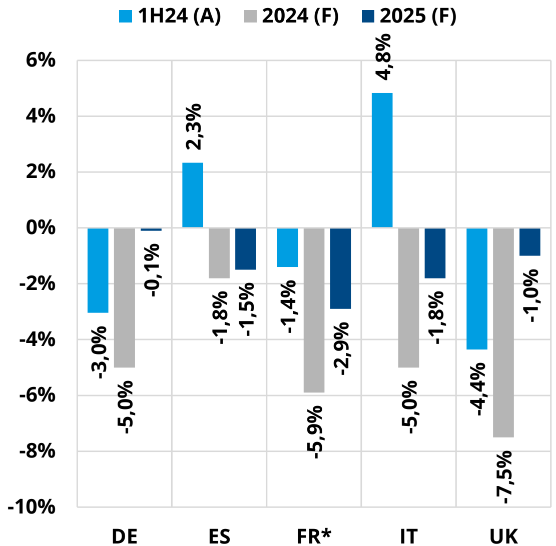
Sources: Autovista, Creditreform Rating

In 1H24, **Germany** recorded 3.8mn used car transactions, up by 8.0% y-o-y, indicating that the market is on a recovery path. The increase is particularly noticeable for BEVs and HEVs. Although BEV sales doubled compared to 2023, the segment is experiencing weaker demand as of late, declining by 28.8% m-o-m in June 2024, thereby dampening the price of used cars. Moreover, the market witnessed some normalization of overall BEV prices, which spiked during the pandemic and boosted the prices of used BEVs.

Also, supply is currently meeting subdued demand, leading to a slight month-on-month increase in average stock days. However, HEVs led the way with a 53.9% trade residual value (RV, % of list price), followed by petrol cars (51.4%), diesel (50.2%), PHEVs (45.9%), and BEVs (39.3%).

Figure 8: RVs should decline across the region, with a notable drop expected in the UK

Incremental change in Residual Values – actual (A) and forecast (F), *1H24 growth is calculated for the period between November 2023 to June 2024 due to the non-availability of December 2023 data



Sources: Autovista, Creditreform Rating

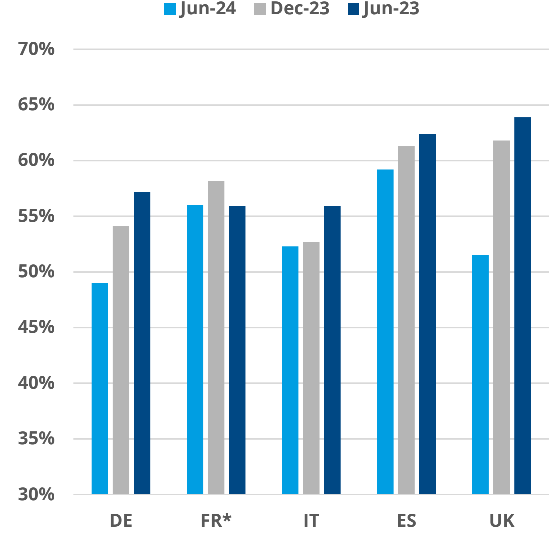
The **Spanish** used vehicle market has been shaped by several factors. The rental car channel remains a key driver of new-car sales, with y-o-y deliveries surging by 45% in this sector. Moreover, amendments in European safety regulations have resulted in young cars (between one and two years old) returning to the used-car market, leading to increased supply and downward pressure on prices. Consequently, the demand for used vehicles rose by 7.2% y-o-y. In contrast, these young cars' residual values (RVs) are in decline, whereas other age groups show more stability.

Despite rising list prices, RVs in **France** declined, particularly for used PHEVs and BEVs due to

sluggish demand (see Figure 8 and Figure 9). The excess supply of these EVs triggered price reductions as newer models with enhanced technology and lower prices entered the market. This trend was confirmed by a sharp drop in the sales volume in June 2024, as consumers held off purchases, anticipating further price decreases, leading to an increase in stock days. Meanwhile, diesel, petrol, and HEVs remained largely steady. In June, sales of both full and mild-hybrid vehicles saw a downturn. Although hybrids have recently been the most dependable powertrains, their elevated prices are discouraging buyers. As a result, customers are now hesitant to commit to hybrid vehicles. Nevertheless, the French used car market achieved a resilient 3.0% year-on-year growth in the first half of 2024.

Figure 9: Current %RV comparatively lower than in previous periods

Residual Value as % of list price, *Dec-24 %RV for France is taken as November 2023 due to the non-availability of December 2023 data



Sources: Autovista, Creditreform Rating

Italian used vehicle sales grew by 8.7% y-o-y, with the market showing signs of increased stability. Notably, list prices have increased by nearly 2,000 euros compared to last year. Liquefied-petroleum gas (LPG) and compressed natural gas (CNG) models were the only segments to show an improvement in %RVs (in % of list price) compared to last year. In contrast, PHEVs and BEVs have seen declines in %RVs, with BEVs shrinking by 860bps to 34.3% compared to June 2023. Despite the introduction of new incentives, the overall demand for these powertrains remains lackluster in both the new and used car markets.

Similarly, the used car market in the **UK** has seen rising supply levels in 1H24. Many of these vehicles, primarily ex-fleet, have basic features and varying degrees of damage. Consequently, prices have weakened, and buyers are exercising greater caution during auctions. However, younger used cars with better equipment and low mileage are exceptions to this trend, attracting ready-to-sell models. Demand for used all-electric commercial vehicles declined further during this period, comprising only 0.6% of transactions in June. The recently elected Labor government's manifesto aims to restore the 2030 phase-out of petrol and diesel new-car sales, but it remains unclear whether Light Commercial Vehicles (LCVs) will be included. Additionally, there is no mention of reinstating the previously withdrawn plug-in vehicle grants or extending plug-in-van grants beyond 2025. While charging infrastructure acceleration is promised, commercial needs are not specifically highlighted. London motorists will face Congestion Charge fees for zero-emission vehicles starting December 2025, potentially impacting electric LCV adoption.

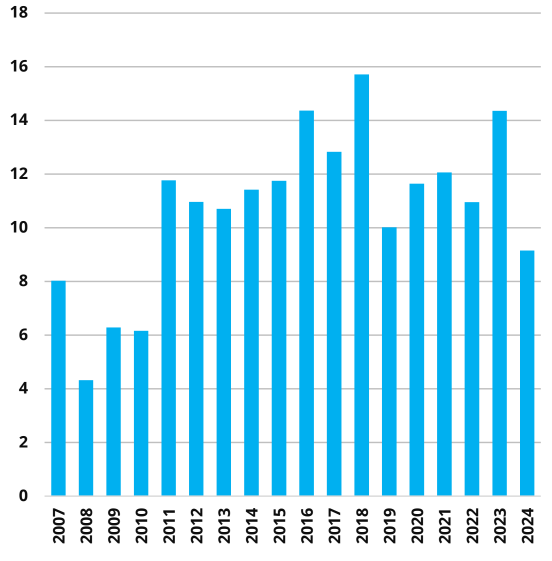
2. The auto ABS market in Europe

Although not yet returning to pre-pandemic levels, 2023 witnessed a significant surge in new car registrations, providing fertile ground for a substantial 45.0% y-o-y growth in auto ABS issuance, which reached 28.8bn euros. This growth was

driven by lenders exploring alternative financing options in response to funding pressures faced by banks due to challenging macroeconomic factors and a decline in consumer deposits. Additionally, households were able to cope with inflation thanks to their savings and resilient job markets, leading to modest real wage gains as inflation receded.

Figure 10: Lowest Auto ABS issuance in the last decade

Volume of new auto ABS issuances in the respective first half of the year, in billion euros

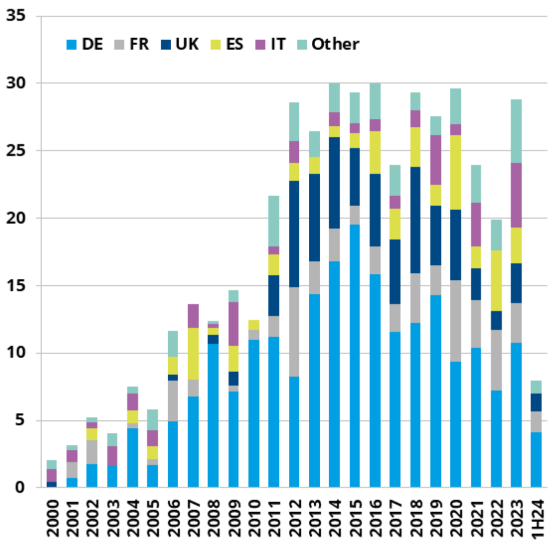


Sources: Refinitiv, Creditreform Rating

By contrast, the European auto ABS market saw a significant contraction of 36.3% y-o-y issuances in 1H24, plummeting to 9.1bn euros, the lowest level in over a decade (see Figure 10). Several factors may explain this decline, including elevated interest rates, which resulted in higher funding costs and modest growth of new and used car registration. While BEVs represent a smaller portion of the auto ABS portfolio, the securitized portfolio could have been influenced by the price volatility of BEVs compared to fuel-powered vehicles, as well as consumer hesitancy in adopting electric vehicles.

Figure 11: Development of auto issuance activity among the largest EU economies in 1H24

Volume of new auto ABS issuances, in billion euros, by the origin of the collateral



Sources: Refinitiv, Creditreform Rating

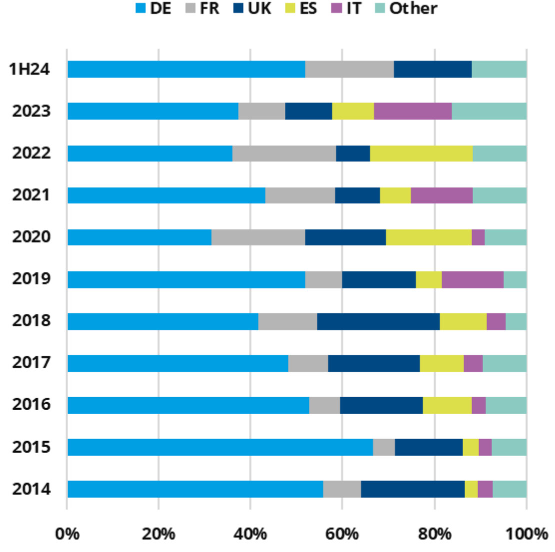
More generally, Europe continues to trail the US and China when considering green auto ABS. In 2014, Toyota Motor Credit Corporation (TMCC) pioneered the first green auto ABS in the US. Later, in September 2018, BYD International Leasing Limited issued China's inaugural green auto ABS. It was not until 2023 that Toyota Financial Services Italia S.p.A. introduced Europe's first green auto ABS, which was backed by a combination of HEV, PHEV, and BEV loans. However, Toyota eventually removed the label from the issuance. Following policy changes, PHEVs will no longer be a part of the EU's green finance taxonomy starting in 2026. Additionally, the current European auto ABS disclosure framework still lacks robust sustainability assessment capabilities, with the European Securities and Markets Authority (ESMA)'s Auto ABS loan and lease level disclosure template not mandating vehicle-related technical information reporting.

Geographically, in 1H24, Germany continued to maintain its position as the leading market in the European auto ABS market, with 4.1bn euros of

new issuances backed by German auto finance (see Figure 11). Moreover, France experienced a surge in its share to 16.7% compared to 10.1% in 2023 and remained above the pre-pandemic levels (see Figure 12). The UK also recovered some ground, with its market share moving close to 14.6%, even though the absolute issuances amounted to just 1.3bn euros. However, ABS issuance activity in Spain and Italy have been low, with no issuance reported in Spain and only 1.2bn euros (13.3% market share) issued by Italy.

Figure 12: Germany and France gained market share

Share in new issuance volume of auto ABS, by the origin of collateral

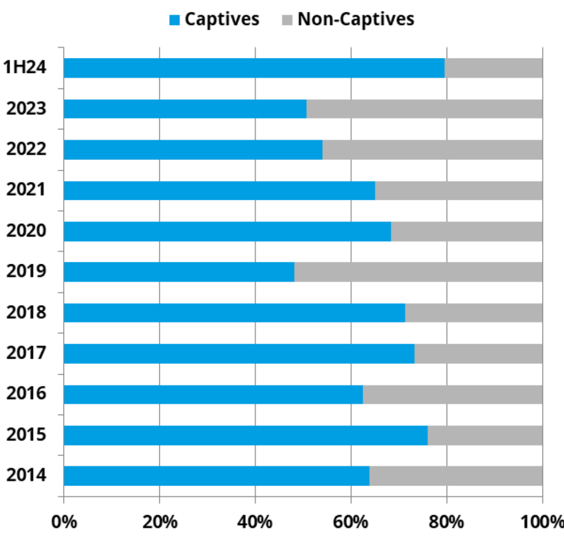


Sources: Refinitiv, Creditreform Rating

In the first half of 2024, the European auto ABS market was primarily influenced by banks associated with car manufacturers (i.e. captives). These captives commanded a significant market share of 82.3%, substantially exceeding the long-term average of 66.6%. They issued auto ABS worth approximately 6.3bn euros during this period. At the same time, non-captive issuers witnessed a downturn in their ABS issuance, amounting to 1.6bn euros, representing a y-o-y decrease of 54.7%. Consequently, their market share dipped to 17.7% of the total volume issued by European originators in the first six months of 2024. This figure is significantly lower than the average share of 40.5% recorded from 2020 to 2023 (see Figure 13). Furthermore, the uncertainties surrounding the transition to EVs have significantly influenced recovery values and residual value risk. This transition could pose a significant impact on the auto ABS market dynamics.

Figure 13: Captives take up the forefront in the first half of 2024

Originators share in new issuance volume of auto ABS

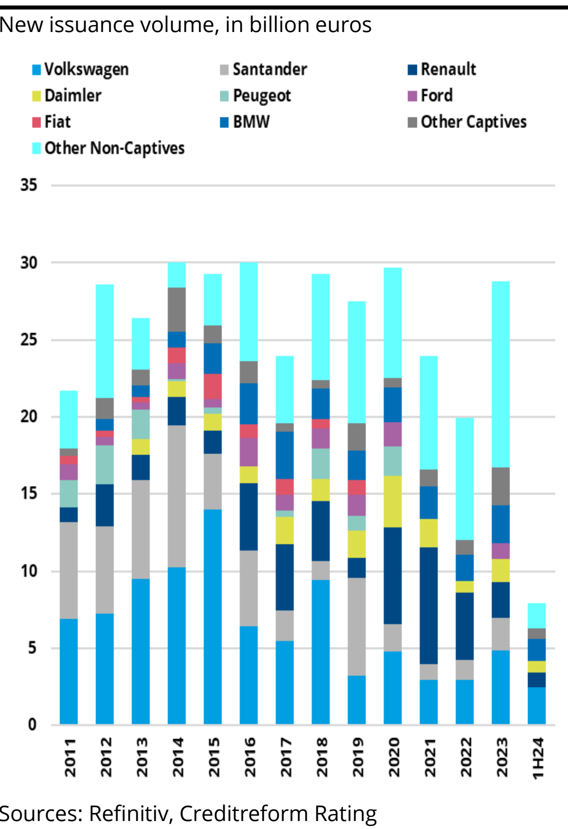


Sources: Refinitiv, Creditreform Rating

Despite several challenges looming in the automotive industry, Volkswagen, the leading German automaker, successfully maintained its commanding position by issuing 2.4bn euros, accounting for 26.6% (see Figure 14) of the total market share in 1H24 compared to 16.7% in the full year 2023. The 2023 issuance was supported by pent-up demand and easing supply chain disruptions. However, in 1H24, volumes were impacted by continuing geopolitical tensions and economic slowdowns. Meanwhile, BMW's performance improved with an issuance of 1.4bn euros during 1H24, compared to 2.5bn euros in 2023. The data indicates a strategic advancement in the issuance schedule with a footprint of 18.7% of total captive issuance in a thin market during 1H24.

Figure 14: Volkswagen leads captives' pack

New issuance volume, in billion euros



Sources: Refinitiv, Creditreform Rating

Among other captive players, Renault and Daimler's performance remained comparatively stable, with 1.0bn euros and 0.8bn euros respectively issued. However, other major industry contributors like Ford, Toyota, General Motors, Volvo, and Hyundai remained inactive, although Ford, Toyota, and Hyundai issued 1.0bn, 538.6mn, and 497.5mn euros, respectively, in 2023 as a whole.

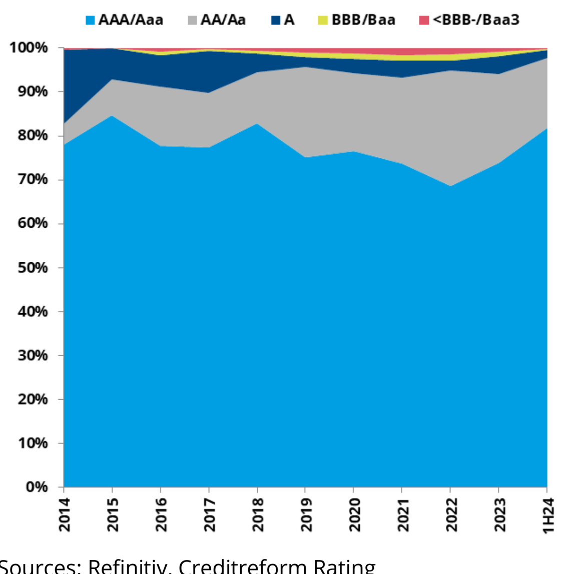
After the merger of Peugeot and Fiat, both brands have been unified under the Stellantis holding company since 2021, leading to a cessation of issuances at the subsidiary level. That said, Peugeot and Fiat have been individually depicted until then (see Figure 14). Thereafter, Stellantis remains in the 'Other Captives' segment. Based on this classification, Stellantis has reported issuances totaling 1.9bn euros in 1H24, higher than 1.4bn euros issued in the full year 2023.

Non-captive issuance softened significantly, accounting for only about 17.7% of the total issuances, with new issuances totaling 1.6bn euros compared to 3.6bn euros in 1H23. Issuance was mainly led by LocalTapiola Finance Limited (LTF), Hiltermann Lease B.V., and Socram, shouldering the burden of the non-captive market issuance.

In the realm of credit ratings, the total value of rated issuances has reached 9.1bn euros. A historical analysis reveals a gradual decrease in the cumulative share of AAA/Aaa-rated issuance over the last decade, with a notable dip starting from 2018, when AAA ratings accounted for approximately 83% (see Figure 15) of all issuances – as measured by the issuance volume of all rated notes. AAA issuances reached a low of 68.5% in 2022 before improving to 73.8% and 81.9% in 2023 and 1H24, respectively. The increase in the AAA- share was partially attributed to the robust issuance volumes of auto finance-backed deals originating from countries such as Germany, France, and the UK.

Figure 15: AAA-rated issuances on the rise

Initial ratings, measured by issuance volume of all notes with a rating



Sources: Refinitiv, Creditreform Rating

AA-rated issuances continue to hold a considerable share, making up 15.9% of the total in 1H24, albeit representing a decrease from the 20.2% observed in 2023. The A-rated category has also experienced a decline, accounting for 1.6% of all rated issuers, a decrease from the 4.2% recorded in 2023. Lastly, issuances at the lower end of the investment grade category (BBB/Baa and below) have fallen below the 1% mark, a level reminiscent of the figures seen back in 2018.

In 2024, Auto ABS spreads, after several months of narrowing, slightly widened in May before stabilizing in June. This shift was partly driven by the monetary policy stance of the Federal Reserve and European Central Bank (ECB). Rising inflation, high interest rates, and reduced government stimulus have strained household balance sheets, particularly affecting lower-income borrowers. However, on a more positive note, stringent loan approval procedures, along with relatively low unemployment, are expected to prevent a significant further rise in delinquency rates.

3. Perspectives for the issuance of European auto ABS

While the European car market as well as auto ABS face some headwinds, the increasing demand for electric vehicles (except in Germany) and innovative financing solutions offer opportunities for issuers and investors. The market is set to benefit from the strong performance of major auto loan originators, including banks and captive finance companies.

Credit performance in the auto ABS sector remains robust, with low delinquency and default rates. As of Q2 2024, delinquencies for 30-60 days decreased slightly, reflecting a healthy repayment environment. However, a modest rise in longer-term delinquencies suggests that issuers will need to remain vigilant regarding credit quality. The shift towards electric vehicles (EVs) is likely to impact financing structures and demand for ABS. As automakers expand their EV offerings, the need for funding should increase, presenting new opportunities for ABS issuers.

That said, challenges persist. The competition between the European automobile market and Chinese manufacturers, particularly in the EV segment, has intensified significantly in 2024. Chinese brands, led by companies like BYD and Chery, are steadily gaining ground in the European market, with their share likely to rise over the coming years. This growth is driven by competitive pricing, with Chinese EVs typically priced around 20% lower than their European counterparts, making them particularly appealing to price-sensitive consumers.

Despite protective measures, in particular provisional EU tariffs on imports of BEVs from July 2024, the challenge remains for European carmakers to improve their competitiveness. The rapid advancement of Chinese EV technology, particularly in battery production, poses a significant threat to traditional European brands. As Chinese manufacturers continue to invest in local production and improve their offerings, the competitive landscape in Europe is likely to shift, requiring European carmakers to make strategic adjustments to maintain their market position.

According to recent media news, for the first time in its history, Volkswagen, Germany's largest industrial employer, is reportedly considering the closure of at least two plants in the country due to years of declining value and challenges in transitioning to EVs. The news has also raised concern among the policymakers and government as the closure of the plants may not only affect the Volkswagen employees but also

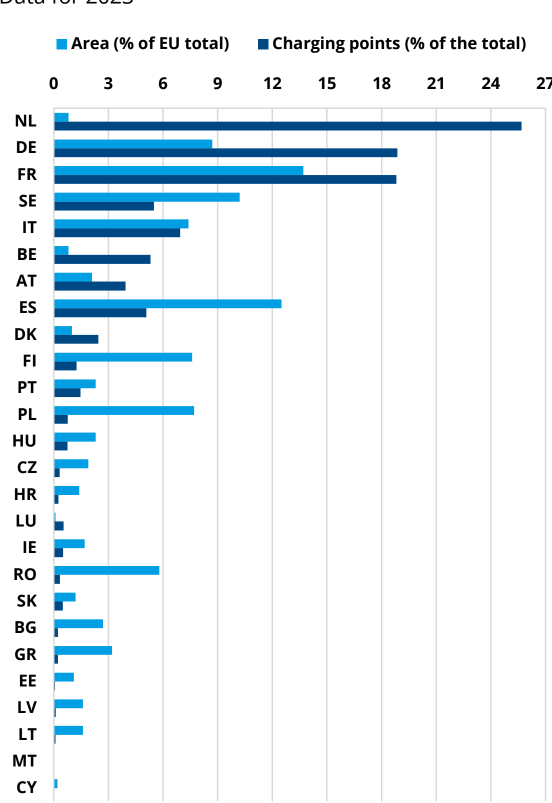
affect hundreds of small- to medium-sized German companies that supply Volkswagen. It could have a serious impact on the German economy.

Partly in response to this news, the German government has introduced tax reductions to encourage EV use, following the abrupt end of a subsidy program as of end of last year. Despite being Europe's largest economy, Germany saw a 36.8% y-o-y drop in new EV registrations in July. Consumers remain concerned about affordability, charging infrastructure, and vehicle range. The new draft, approved by Chancellor Olaf Scholz's cabinet, allows companies to deduct up to 40% of the value of new electric and zero-emission vehicles from their tax bill in the year of purchase, decreasing to 6% over time. This measure is expected to cost around 585mn euros in 2025 and increase to 650mn euros in 2028, according to the draft law. Additionally, company cars worth up to 95,000 euros will receive preferential tax treatment.

The EU faces another critical challenge as the rapid growth in EV sales outpaces the expansion of public charging infrastructure. As of 2023, there were only 632,423 public charging points across the EU, a fraction of the estimated 3.5mn needed by 2030 to support the anticipated increase in EV adoption. To be sure, the European Commission's target is significantly lower than ACEA's projection of 8.8mn charging points needed. Moreover, the expansion of charging points has lagged behind the surge in BEV sales, which have increased more than 18-fold since 2017. Of particular concern is the lack of fast chargers, with only 13.5% of all charging points offering high-capacity charging capabilities. This disparity highlights the urgent need for substantial investment and accelerated deployment of EV charging infrastructure across the EU to keep pace with the rapid electrification of the transportation sector (see Figure 16).

Figure 16: Electric vehicle charging infrastructure in the EU remains concentrated in a few economies

Data for 2023



Sources: EAFO, Creditreform Rating

Another major challenge is related to the EU's ambitious goal of achieving climate neutrality by 2050, with a legally binding target of reducing greenhouse gas emissions by at least 55% compared to 1990 levels by 2030. To work towards this overarching objective, the EU has implemented a series of policies and regulations aimed at decarbonizing various sectors, including transportation. In April 2023, the EU enacted a law prohibiting the sale of new cars emitting CO2 by 2035. The UK also adopted the same regulations. However, the incoming government has plans to slow down the process by providing an exception post 2035. In the EU, vehicles that run on e-fuels are exempt from the ban for the time being.

When it comes to the macro backdrop, the euro area GDP returned to positive growth in 2024,

with a q-o-q increase of 0.3% in both Q1 and Q2, following a period of stagnating in the second half of 2023. Among the four largest euro area economies, Spain stood out with significantly stronger performance, achieving q-o-q growth of 0.8% in both quarters. By contrast, Germany continued to lag behind its peers, experiencing another contraction in Q2 following a modest expansion in Q1.

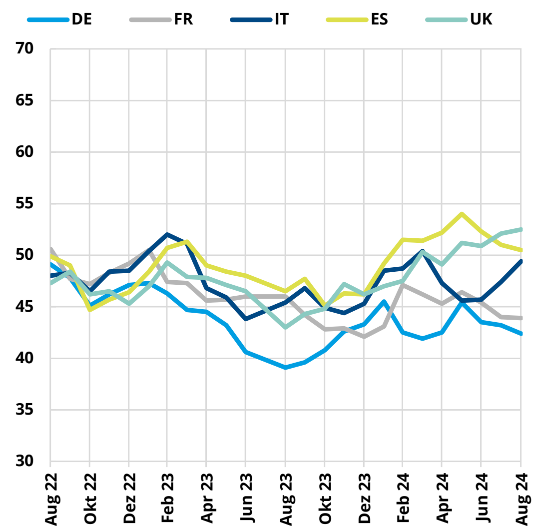
More recently, the euro area economy saw tentative signs of recovery in 2024 as inflation continued to decline despite geopolitical headwinds. Business confidence in the euro area improved as compared to the last two years. The positive momentum provides a much-needed reprieve from concerns of a continued decline in economic sentiment. Despite ongoing risks, the renewed optimism suggests that the euro area's economic outlook may be more resilient than previously anticipated.

At the same time, survey data such as the euro area PMIs continue to indicate a two-speed economy, with the services sector outperforming manufacturing. Notably, the manufacturing PMI for the euro area came in at 45.8, remaining well below the critical 50 threshold that separates growth from contraction. Meanwhile, Germany's manufacturing PMI fell to 42.4 in August from 43.2 in July (see Figure 17), indicating that the business climate in Germany's manufacturing sector has significantly deteriorated lately. As of June 2024, the euro area unemployment rate remained steady at 6.5%, consistent with the average rate from the previous year. While labor shortages continue to constrain economic activity, there are indications of a gradual easing from recent peak levels.

As we approach the end of 2024, geopolitical fragmentation remains a significant threat to the global economy. Ongoing conflicts in Ukraine and the Middle East contribute to persistent uncertainty, particularly concerning the potential for renewed spikes in commodity prices, such as oil and natural gas. Given the auto industry's heavy reliance on natural gas, surging prices could present formidable challenges for the sector. In addition to geopolitical tensions, the rise of protectionist trade policies over recent years has further exacerbated downside risks to global economic dynamics.

Figure 17: Manufacturing PMIs remains under pressure

<50= contraction, >50=expansion

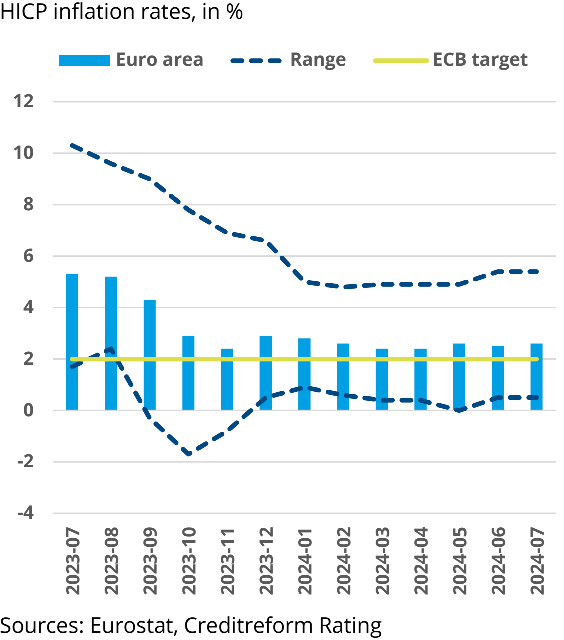


Sources: IHS market, Creditreform Rating

On a more positive note, inflation rates have receded across many regions, prompting central banks worldwide to prepare for policy rate cuts (see Figure 18). In the euro area, the annual inflation rate, which peaked at 10.6% in October 2022, has fallen to 2.2% in August 2024. This decline followed a period of stability, with inflation hovering around 2.5% from February to July, largely driven by softening energy prices. However, disparities in national Harmonized Index of Consumer Prices (HICPs) have emerged due to the divergent strategies adopted by EU member states to mitigate high energy prices over the past two years.

Figure 18: HICP Inflation remains slightly off-target as corridor continues to narrow

HICP inflation rates, in %



Sources: Eurostat, Creditreform Rating

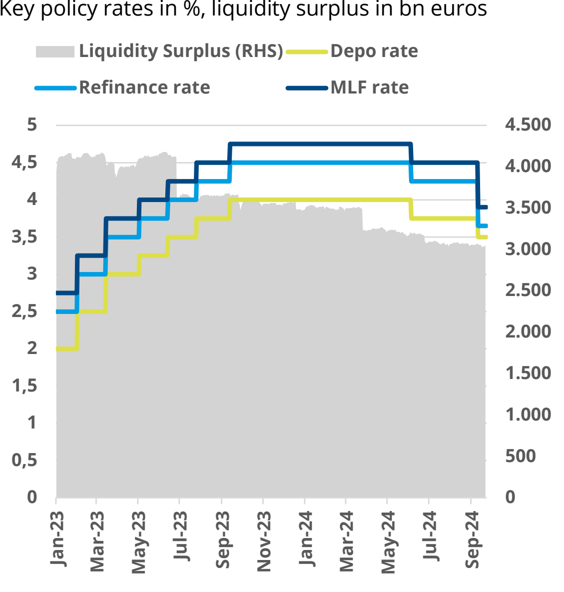
Core inflation, which excludes volatile items such as energy, food, alcohol, and tobacco, remained at a higher level of 2.8% in August, still above the European Central Bank's (ECB) target of 2%. While inflation has come down significantly, vivid wage growth and energy-related base effects are likely to prevent headline inflation from falling much further this year.

There are, however, tentative signs that pressures from higher labor costs are beginning to ease, supporting expectations for a gradual rate-cut cycle in the euro area. According to the ECB's latest macroeconomic projections from September 2024, inflation is expected to average 2.5% this year, decreasing to 2.2% in 2025. Meanwhile, core inflation is anticipated to be slightly higher in 2024 but is projected to average 2.3% next year.

In June, the ECB opted for the first rate cut this year by 25 bps, leaving the deposit facility unchanged at 3.75% for the following months, before cutting the deposit rate by another 25bps at the September meeting (see Figure 19). Regarding potential future interest rate adjustments, we believe the ECB will implement one more rate cut this year. By mid-2025, the main refinancing rate is projected to come down to 2.9% and the deposit rate to 2.75% from current levels of 4.25% and 3.75%, respectively. The growing expectations of policy easing by the ECB have already led to a moderation in interest rates, providing some relief in input costs.

Figure 19: ECB embarks on a rate-cut cycle while surplus liquidity continues to decline

Key policy rates in %, liquidity surplus in bn euros



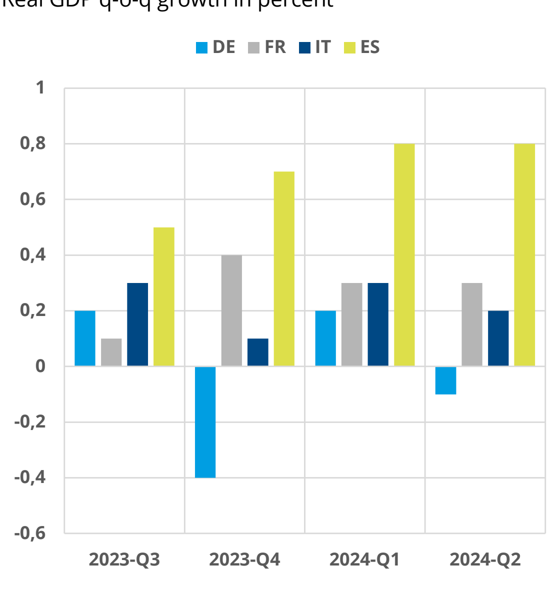
Sources: ECB, Creditreform Rating

Lower borrowing costs may have more consumers considering or making way for big-ticket purchases such as automobiles. This is also ascertained from the considerable boost seen in consumer confidence over the past few months. Against the backdrop of lower inflation, the expected monetary easing cycle and a relatively stable labor market, more domestic demand impulses can be expected next year, alongside rising exports. To be sure, given that a number of European governments face pressure to step up fiscal consolidation efforts, we see some potentially offsetting effects to the expected relief from interest rate cuts via the fiscal channel.

We project euro area GDP growth to rise to 0.8% in 2024, primarily fuelled by robust economic performance in Spain and France, while Germany's economic output should more or less stagnate. Recent growth metrics indicate that Spain has consistently outperformed other major euro area economies (see Figure 20). Additionally, French GDP may receive a temporary boost from the Paris Olympics in the third quarter of 2024. With our upward-revised euro area GDP growth forecast for 2024 and accelerating GDP growth expected for 2025, we anticipate an increase in automobile demand.

Figure 20: Real GDP growth across major countries

Real GDP q-o-q growth in percent



Sources: Eurostat, Creditreform Rating

Looking at the financing conditions in the euro area, the July 2024 ECB bank lending survey reveals a complex picture of credit developments in the second quarter of 2024. Financing conditions are easing, and there is a renewed demand for loans among private households. Notably, the standards for housing loans to private households have eased further, and the demand for these loans has increased for the first time since 2022.

Conversely, high interest rates and reduced fixed investment have continued to suppress firms' loan demand in 1H24. However, for the first time in six quarters, there was a slight positive contribution from inventories and working capital, according to the latest ECB survey. Among the four major euro area economies, trends varied significantly: banks in France and Italy reported a further decrease in loan demand, while those in Germany and Spain saw an increase. Looking ahead to Q3 24, banks anticipate a moderate uptick in loan demand from both enterprises and private households as credit condition starts easing followed by interest rate cuts by the central banks.

Economic activity in the UK surpassed our expectations, with the British economy expanding by 0.6% q-o-q in Q2 2024, following a 0.7% rise in Q1. This marks the strongest period of economic growth since the immediate recovery from the pandemic in 2021 and early 2022, driven by falling inflation that has bolstered household finances and spending. This growth follows two consecutive quarters of declining GDP in Q3 and Q4 2023, which constituted a technical recession. On the production side, the services sector grew by 0.8%. Conversely, production edged 0.1% lower, primarily due to a decline in the manufacturing of transport equipment.

The UK's manufacturing PMI continued its positive trend and stood at 52.5 in August, reaching its highest level in 26 months, with a notable increase in new business reported. Additionally, recent economic indicators have been generally optimistic, with inflation returning to the Bank of England's (BoE) 2% target. As inflation declined, real wages have increased, marking the highest annual wage growth since the summer of 2021. The improved economic performance has led us to revise our 2024 UK GDP growth forecasts upwards, to 1.1% in 2024.

Overall, UK consumer price inflation (CPI) increased to 2.2% in July from 2% in June. Although service inflation eased slightly, it continues to outpace the headline CPI, mainly due to wage pressures. Rising real incomes, driven by fading inflation and sustained pay growth, will likely boost household spending going forward. Nonetheless, the Monetary Policy Committee anticipates a resurgence in inflation, projecting it to reach approximately 2.75% in the latter half of 2024. This uptick is attributed to the diminishing favorable base effects associated with energy prices.

Currently, the BoE closely monitors service prices when setting interest rates, as these are less influenced by global factors and more dependent on domestic costs, such as wages, compared to goods prices. UK's interest rates stand at 5%, following a 25 bps cut on August 1, 2024, the only reduction this year.

Investment in the UK is likely to gain momentum as further interest rate cuts from the BoE should continue to have a benign effect on financing conditions. With the Labour party in government following July's snap election, there are signs of increased cooperation between the UK and the EU, which could further support UK GDP growth, not least via areas like research and development.

In the coming months, the threat of geopolitical fragmentation remains a significant concern. The prolonged conflict in Ukraine, along with escalating tensions in the Middle East, exacerbates uncertainties, posing potential risks to price stability, employment, and mobility. Despite efforts to adapt to these geopolitical challenges, the unpredictable developments related to these conflicts continue to present downside risks. These include the possibility of renewed commodity price spikes and potential disruptions to critical international transport routes.

Amid these challenges, new car sales are still expected to grow modestly during the second half of 2024. While this moderate growth may offer opportunities in the used car market, the situation is complicated by an excess supply of used vehicles and the introduction of new models from both domestic and international manufacturers. Together, these factors could put downward pressure on the residual values of used cars.

Despite these headwinds, the European auto ABS market remains resilient. It is supported by steady issuance activity and manageable delinquency rates. Furthermore, growing penetration of electric vehicles (EVs) and the stabilization of supply chains are likely to bolster investor confidence. Once current challenges ease, the auto ABS market is well-positioned for growth, driven by stable market conditions, strong demand for financing solutions, and the increasing alignment of auto lenders with sustainable vehicle trends.

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