

AUTOMOTIVE

Automaker stocks recover, but taxation and regulations hover over post-Brexit world

July 21, 2016



Rolls-Royce Black Badge insignia

By FORREST CARDAMENIS

Automaker stock prices plunged following the Brexit referendum but now appear to have recovered.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

Tata Motors and BMW, the owners of Jaguar Land Rover and Rolls-Royce, respectively, both lost 11-12 percent of their stock value in the days following Brexit, but each has eclipsed its shareholder price from June 23, the day of the referendum. Despite stock market recovery, the trade impact of Brexit will send shockwaves through the automotive world, particularly for British brands, and possibly renew emphasis on Asian markets.

"The fact of the matter is that fewer cars were registered in June 2016 than in June 2015," said Neil King, automotive analyst at [Euromonitor International](#). "This was with the same number of working days too, whereas there was actually one fewer in October 2015 than in October 2014, which largely explains the market's contraction then.

"Technically then, one could argue that the car market actually grew for 51 consecutive months until the newly infamous landmark Brexit month of June 2016," he said.

"Looking ahead, it is very difficult to be optimistic about the outlook for the U.K.'s car market, at least in the short term, with the negative impact on economic growth, employment, inflation, fuel prices, the pound and of course consumer confidence."

Taxation trouble

The U.K. has yet to formally begin its withdrawal from the European Union as triggered by the referendum vote June 23, so details on potential new trade agreements are predictably limited. Nevertheless, the U.K. will likely face harsher taxes when trading with the European Union, which will avoid "rewarding" the U.K. for leaving with favorable rates.



Land Rover Defender

After Germany, the U.K. is the biggest automobile market in the European Union. Fifty-eight percent of its vehicles are exported to E.U. nations, while 85 percent of vehicles sold there are imported.

Additionally, the U.K. is Germany's biggest export market. German automakers will see the newly independent nation taking a larger chunk of change from their pockets.

Adding insult to injury, Tata Motors, BMW and Volkswagen, which owns Bentley, will be double affected. As they import and export their own vehicles across British borders, they will be hit with taxes in both directions.

Jaguar Land Rover is at further risk, as the status of a deal with European Parliament is cryptic. The U.K. and E.U. negotiated an allowance for the automaker's vehicles to avoid the collective's stringent fuel economy targets. If Jaguar Land Rover cannot reach those targets, it may not find a place in the E.U.



Bentley Grand Limousine by Mulliner

Dealers such as Penske Automotive Group and Group 1 Automotive, whose stocks followed the same pattern as automakers' post-Brexit, face similar uncertainty. Their European agreements will cease to apply to the U.K., with pricing and thereby demand impacts indeterminate at this point in time.

Of course, it is not only taxes that impact import and export numbers.

If the pound does not recover the value it lost from the Brexit decision, its lower value could make its exports more attractive to other markets. With the automotive markets in Russia and especially in China surging, the U.K. could aim to make up some of its lost margins in these markets.

However, the same possibility could lead the U.K. to reduce German vehicle importations, thereby driving those brands to the same markets.



Aston Martin DB11

While new trade agreements will not take effect for some time, the impact of the pound's devaluation is already being felt. Euromonitor has revised its second quarter automotive forecast from 3.2 percent growth to just 0.9 percent and is predicting a decline of 1.8 percent in 2017.

Certain of uncertainty

While the automotive sector prepares for medium- and long-term drawbacks, other sectors are reaping short-term benefits.

The pound's drop to its lowest valuation in decades following the United Kingdom's decision to leave the E.U. is already affecting international travel plans.

Seeking what equates to discounted luxury goods and hotels, travelers from other nations are showing increased interest in trips to Britain, while U.K. citizens are expected to opt to remain home rather than traveling to locales where their money will not go as far. Despite a time of political and economic uncertainty in the U.K., signs point to a boost to the country's tourism industry, at least in the foreseeable future ([see story](#)).

Just as Jaguar Land Rover may be forced to expedite its electric vehicle goals if its agreement with the E.U. no longer holds, other brands have also needed to make adjustments to stay competitive in large marketplaces.

For example, last year Aston Martin announced its electric RapidE concept vehicle, which has since been put into production.

The development of an emissions-free car also allows Aston Martin to keep its less eco-friendly V12 engine in circulation amid regulations requiring brand fleets to average a particular standard. There is increasing pressure for manufacturers to decrease emissions, but rather than making all of its engines progressively smaller, Aston Martin is looking to balance larger, more powerful engines with zero-emissions cars such as the RapidE ([see story](#)).

As the U.K. is inundated with predictions of market contraction, the government is under considerable pressure to strike fair trade agreements and encourage business. Very often, the climate of the general economy and that of the automotive world reflect one another.

"All of this hinges on whether the current uncertainty prevailing in the U.K. can be positively addressed and how markets and consumers react," Mr. King said.

"However, the only real certainty is that the U.K. faces a prolonged period of uncertainty and this will be greatly reflected in the auto sector," he said.