FOCUS ON GERMANY

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Germany – The automotive industry in the face of change

A key sector of the German economy

For over a century, the automotive industry has been one of the cornerstones of Germany's industrial strength. Driven by globally recognised brands such as Volkswagen, Mercedes-Benz, BMW and Audi, Germany has established itself as Europe's leading car manufacturer. **The sector accounts for over 730,000 direct jobs** and remains a key driver of industrial innovation thanks to massive investment in research and development. In 2025, **Germany accounted for 21 per cent of European car production** (around 4.03 million vehicles) **and 26 per cent of sales in Europe** (around 2.86 million units), generating a turnover of 436 billion euros, of which over 68 per cent came from exports.

Historically, this success has been based on a simple model: producing high value-added vehicles and exporting them worldwide. For decades, this strategy enabled German manufacturers to dominate the premium segments and generate high margins.

An industry facing a sharp slowdown

For several years now, the sector has been facing a less favourable environment. **Car production remains 15 per cent to 25 per cent below pre-pandemic levels**, as private demand has not truly recovered from the shock caused by the Covid-19 pandemic. Rising prices, economic uncertainties and falling purchasing power are holding back new car purchases. Manufacturers must also contend with rising production costs, linked in particular to higher energy prices – which are especially high in Germany – as well as increasingly stringent regulatory and environmental constraints. The profitability of manufacturing sites has consequently been severely eroded, leading to large-scale restructuring.

The export-driven model under scrutiny

Another key factor behind this slowdown is the challenge to an export-driven model: around 40 per cent of the sector's decline stems from the loss of overseas markets, with exports to the United States and China falling by 18 per cent and 33 per cent respectively in value terms.

The case of China, long a growth driver for German groups, illustrates this trend. German manufacturers are seeing their positions weakened there as demand slows and local brands gain ground.

The offensive by Chinese car manufacturers

China's rise to prominence is arguably the most significant development in the global automotive landscape. Chinese manufacturers are no longer confining themselves to entry-level vehicles. They now offer innovative, competitive and technologically advanced models. Furthermore, they are becoming increasingly efficient. **Vehicle development times are particularly competitive: 24–30 months for Chinese manufacturers, compared with 48–54 months for German mainstream manufacturers**.

Their lead in battery production and certain electric mobility technologies, their lower production costs and their commercial agility give them a significant advantage and enable them to gain market share in

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China and Europe. **Chinese car exports thus overtook those of Germany in 2022 and reached nearly 10 million units on an annualised basis in the spring of 2026.**

The shift to electric vehicles

Faced with these upheavals, the sector is accelerating its transition to electric vehicles: major manufacturers are investing tens of billions of euros in platforms, on-board software and battery production. With fewer mechanical components, electric vehicles rely more heavily on electronics, batteries and digital solutions. **Value is thus shifting towards software,** which means manufacturers and suppliers must adapt their skills and industrial tools to remain competitive.

This transition is profoundly transforming the employment landscape and leading to a gradual decline in certain activities, particularly those of component suppliers specialising in internal combustion engines, whilst driving an industrial transformation based on the needs of digital technology, electronics and batteries.

A decisive turning point

The German automotive industry retains many strengths: prestigious brands, recognised expertise and a strong capacity for innovation. Nevertheless, **it now faces a dual revolution – technological and geopolitical**. Its ability to successfully transition to electric mobility whilst withstanding competition from China will determine its future. **Beyond the automotive sector, this transformation represents a test for part of the German industrial model.**

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