

# Carmakers are hiking the price of small, affordable cars above inflation

Carmakers have raised prices by thousands but claim €200 Euro 7 pollution fixes will make cars unaffordable

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October 2023

## Summary

In November 2022, the European Commission proposed a new law, known as Euro 7, reducing allowable pollution from cars, vans, buses and trucks. The proposal would save thousands of lives cut short by air pollution and improve air quality for all European citizens. Yet, the automotive industry has been intent on derailing any meaningful progress on reducing pollution from cars and trucks, criticising even the severely watered down Euro 7 general approach of the Council<sup>1</sup>, and the weak position of the European Parliament's Environmental Committee<sup>2</sup>. One of the central arguments of carmakers against Euro 7 is that of affordability. Carmakers argue that Euro 7 is too expensive for both them and consumers, and will result in large price hikes<sup>3</sup> which will make cars, especially smaller, cheaper models, unaffordable<sup>4</sup>.

Yet, price data from Europe's five biggest carmakers (BMW, Mercedes, Stellantis, Renault and Volkswagen) shows that they have raised the prices of their cheapest models by up to 41% since 2019, almost double the average EU cumulative inflation (21%). Notably, the price of small, affordable models, the Peugeot 208, Seat Ibiza and Renault Twingo, which previously retailed at (€10,300-€15,500) have increased by almost €6,000. The more premium but still small Mercedes A and B class models increased in price by over €10,000. The price increase of 7% of the BMW Series 1 and 2 was more limited only due to a sharp reduction in pricing since May 2023.

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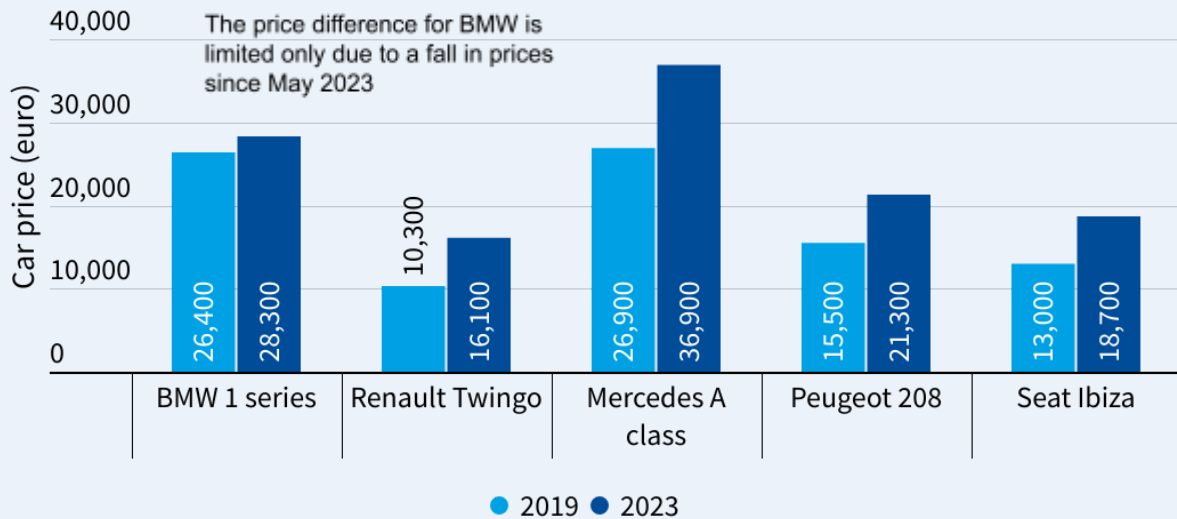
<sup>1</sup> ACEA. (2023, 09.25) [Euro 7 Council position: Step in right direction, but cost pressure remains high, industry cautions.](#)

<sup>2</sup> ACEA. (2023, 10, 12) [Auto industry: European Parliament Euro 7 vote improves Commission proposal, but still falls short.](#)

<sup>3</sup> ACEA. (2023) [Euro 7 factsheet #3.](#)

<sup>4</sup> Autocar (2023, 03,17) ['Amicable solution' to Euro 7 would secure future of Volkswagen Polo.](#)

# The price of smallest cars has soared



Rather than the rise being due to increased costs linked to high inflation and the war in Ukraine, carmakers have used the opportunity of an inflationary market to raise prices beyond inflation to substantially bolster their own profits while making cars less affordable for consumers. J.P. Morgan estimates that only half of the increase in new vehicle prices is due to higher input costs such as from raw materials<sup>5</sup>. Since Europe's five biggest carmakers more than doubled their profits from €28 billion in 2019 to €64 billion in 2022 as shown in T&E's earlier publication<sup>6</sup>, this means that at least part of the rest of the price increase has directly contributed to the carmaker's record profits. These have allowed them to announce a record payout of €27 billion to shareholders this year.

Most interestingly, prices of BMW's and Stellantis's entry level cars have fallen by €1,300-€3,830 since they peaked earlier this year, likely due to a larger supply of new cars on the EU market driving greater price competition between carmakers. It also suggests that a substantial share of the higher price seen in May was due to carmakers pricing cars purely to boost profits. This is supported by statements from Stellantis' CEO forecasting that carmakers will have to go back to more conventional pricing and profit models<sup>7</sup> (i.e. one based on higher volumes and lower profit margins as seen prior to the Covid-19 crisis rather than the high profit, low volume model seen over the last few years).

<sup>5</sup> J.P. Morgan (2023, 02, 22) [Inflation and the auto industry: When will car prices drop?](#)

<sup>6</sup> T&E. (2023) [Euro 7: Carmakers' record profits made at expense of human health.](#)

<sup>7</sup> Financial Times (2023, 02,22) [Stellantis chief forecasts car prices to fall this year as discounting returns.](#)

The large price increases seen for cars in recent years, even for entry level models, coupled with carmakers' extraordinarily high profits, raises an important question. Why are carmakers prepared to raise prices by thousands of euros, making cars significantly less affordable for European consumers, to make record profits, but fight tooth and nail against life saving anti-pollution technologies costing only €200 per car<sup>8</sup>? This shows that even after the dieselgate scandal Europe's carmakers prioritise profit ahead of people's health.

It is up to European policymakers to ensure that the health of European citizens is protected. It is imperative that in the upcoming vote on the Euro 7 pollution standards, **Members of the European Parliament support a more robust Euro 7 than the weak position agreed within the Parliament's Environment Committee**, which weakens key aspects of the Commission's Euro 7 proposal including on emission limits and testing, which are critical for reducing the large amount of toxic pollution still produced by new cars today. This is Europe's last chance to cut toxic pollution from internal combustion engines, MEPs should not squander it.

## Introduction

In November 2022, the European Commission proposed a new law reducing allowable pollution from cars, vans, buses and trucks. The proposal would save thousands of lives otherwise cut short by air pollution<sup>9</sup> and improve air quality for all European citizens. Yet, the automotive industry, which placed 51 million grossly polluting cars on European roads during the dieselgate crisis<sup>10</sup>, and has been charged with colluding to delay lower pollution technology<sup>11</sup> has been intent on derailing any meaningful progress on reducing pollution from cars and trucks; criticizing even the severely watered down Euro 7 general approach of the Council<sup>12</sup> and the weak position of the European Parliament's Environmental Committee<sup>13</sup>.

The car industry has made many unsubstantiated claims against Euro 7 which have been widely discredited<sup>14</sup>. One of the central arguments against Euro 7 has been that of affordability. Carmakers argue that Euro 7 is too expensive for both them and consumers and will result in large price hikes<sup>15</sup> which will make cars, especially smaller, cheaper models unaffordable<sup>16</sup>. This briefing dismantles this myth by showing that carmakers have raised car prices by thousands of euros, allowing them to deliver record

<sup>8</sup> European Commission. (2022) [Euro 7 standards: new rules for vehicle emissions](#).

<sup>9</sup> ICCT. (2023) [Emissions reductions and public health benefits from timely Euro 7 standards](#).

<sup>10</sup> T&E. (2019) [There are now 51 million dirty diesel cars on EU's roads](#).

<sup>11</sup> Forbes. (2021, 07, 08) [Germany's nuggets automakers fined €875 million for emissions collusion](#).

<sup>12</sup> ACEA. (2023, 09.25) [Euro 7 Council position: Step in right direction, but cost pressure remains high, industry cautions](#).

<sup>13</sup> ACEA. (2023, 10, 12) [Auto industry: European Parliament Euro 7 vote improves Commission proposal, but still falls short](#).

<sup>14</sup> T&E. (2021) [The seven \(dirty\) air pollution tricks of the auto industry](#).

<sup>15</sup> ACEA. (2023) [Euro 7 factsheet #3](#).

<sup>16</sup> Autocar (2023, 03,17) ['Amicable solution' to Euro 7 would secure future of Volkswagen Polo](#).

profits while at the same time fighting against the adoption of more effective Euro 7 pollution control technology costing just €200 per car<sup>17</sup> as estimated by the European Commission's Euro 7 Impact Assessment.

## **Results: European carmakers have rapidly raised prices since 2019 to gain record profits**

Carmakers claim that Euro 7 would result in a huge increase in car prices and make new cars, especially cheaper, entry level models unaffordable for European consumers<sup>18</sup>. Yet a new analysis of historical price data shows that Europe's five biggest carmakers have already dramatically raised car prices since 2019. On average the cheapest models have increased in price by 41% since 2019<sup>19</sup> almost double the cumulative rate of inflation since 2019 which stands at 21%<sup>20</sup>. Below are 2019 and 2023 prices of some of European carmakers smallest, entry level car models. The data is based on the cheapest version of the model available on the market at the time<sup>21</sup>.

### **1. BMW Series 1 and 2**

BMW's cheapest car models are the Series 1 and 2. The cheapest versions available of these models have increased in price by 7% since 2019, by €1,890 for the Series 1 and €2,230 for the Series 2. Interestingly current prices are not the highest seen since 2019, in May 2023 the Series 1 was €2,310 more expensive than today and the Series 2 €3,830 more expensive. The increase in prices between 2019 and May 2023 was 16% for the Series 1 and 20% for the Series 2.

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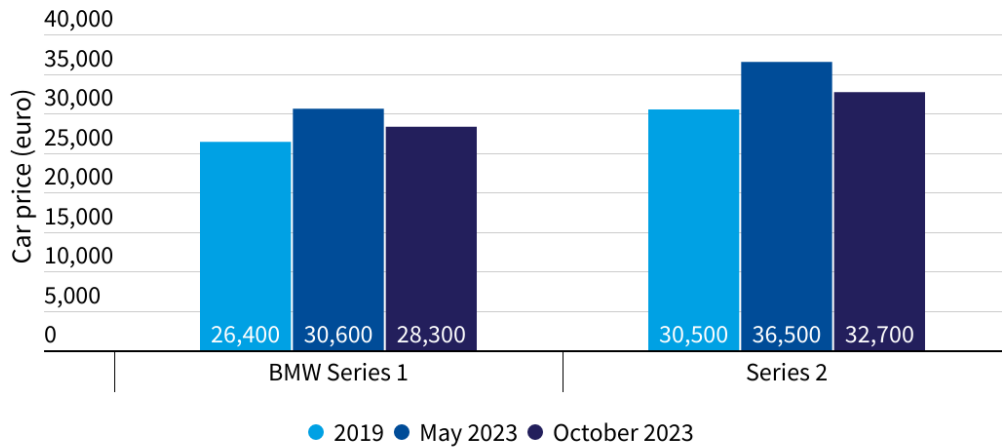
<sup>17</sup> European Commission (2022, 11,10) [Euro 7 standards: new rules for vehicle emissions](#).

<sup>18</sup> ACEA. (2023) [Euro 7 factsheet #3](#).

<sup>19</sup>Based on the increase in car prices in Germany, weighted based on 2023 Dataforce H1 EU sales data. Cheapest two models available in each brand for each carmaker in October 2023 have been analyzed. For Stellantis and VW only brands which provide entry level mass market models have been analyzed. For example Citroen, Fiat, Opel and Peugeot were included for Stellantis. For Renault the Dacia Stepway was not included individually within the analysis as no sales data was available.

<sup>20</sup> Calculated based on 2019-2022 annual EU-27 inflation data from [Eurostat](#). 2023 inflation is based on EU-27 whole year inflation forecast from the [European Central bank updated on the 4th of October 2023](#).

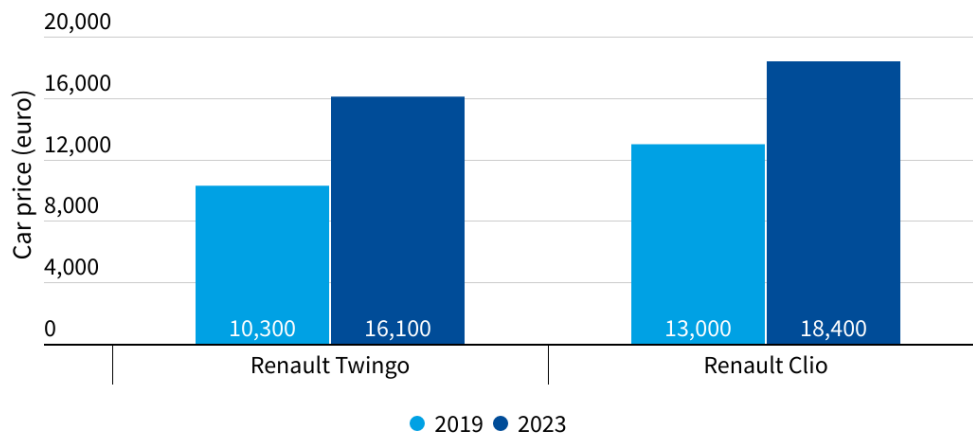
<sup>21</sup> Data obtained from carmaker's German price lists.



**Figure 1. New car prices of the BMW Series 1 and 2 in 2019 and 2023**

## 2. Renault Twingo and Clio

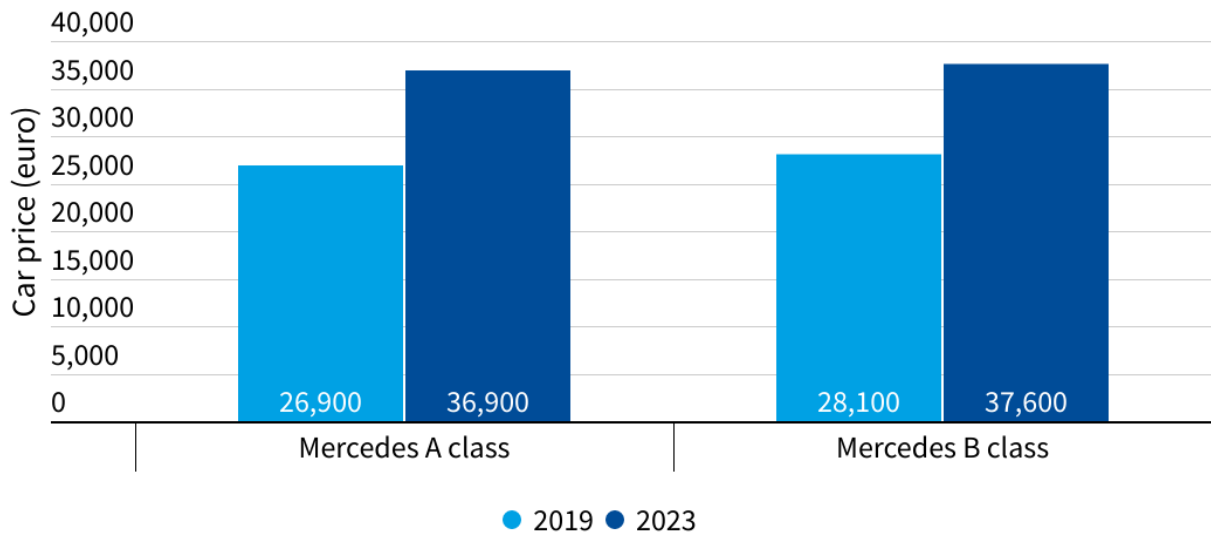
Renault's cheapest car models are the Twingo and Clio. The cheapest version available of the Twingo has increased by 56% (€5,810) since 2019 and the Clio by 41% (€5,360).



**Figure 2. New car prices of the Renault Twingo and Clio in 2019 and 2023**

## 3. Mercedes A and B class

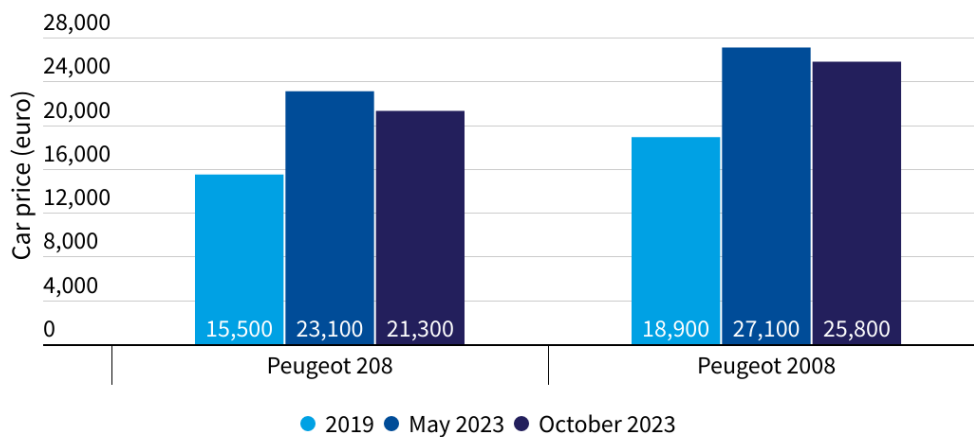
Mercedes cheapest car models are the A class and B class. The cheapest version available of the A class has increased by 39% (€10,310) since 2019 and the B class by 37% (€10,250).



**Figure 3. New car prices of the Mercedes A and B class in 2019 and 2023**

#### 4. Peugeot 208 and 2008

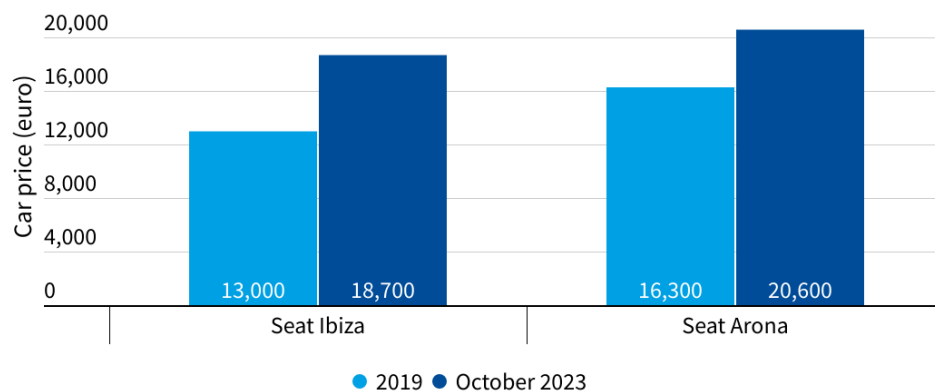
Peugeot is one of Stellantis’s brands whose 208 and the 2008 are the most affordably priced models. The cheapest version of these cars have increased 37% since 2019, by €5,760 for the 208 and €6,900 for the 2008. Prices of the 208 and 2008 were higher in May of this year by €1,800 for the 208 and €1300 for the 2008 compared to today. The increase in prices between 2019 and May 2023 was 49% for 208 and 43% for the 2008.



**Figure 3. New car prices of the Peugeot 208 and 2008 in 2019 and 2023**

#### 5. Seat Ibiza and Arona

Seat is one of VW's brands, the cheapest models in this brand are the Ibiza and Arona. The cheapest version available of the Ibiza has increased by 56% (€5,700) since 2019 and the Arona by 26% (€4,300).



**Figure 5. New car prices of the Seat Ibiza and Arona in 2019 and 2023**

## Conclusion

Rather than the rise in the price of cars between 2019 and 2023 being purely due to increasing costs linked to high inflation and the war in Ukraine, carmakers have used the opportunity of an inflationary market to raise prices for consumers beyond inflation to substantially bolster their own profits. J.P. Morgan estimates that only half of the increase in new vehicle prices is due to passing along higher input costs such as from raw materials<sup>22</sup>. Carmakers refer to the rise in prices in their financial report as 'excellent price penetration'<sup>23</sup> and, based on the latest financial data, this has resulted in Europe's five biggest carmakers more than doubling their profits from €28 billion in 2019 to €64 billion in 2022 as shown in T&E's earlier publication<sup>24</sup>. The record profits have allowed them to announce a record payout of €27 billion to shareholders this year. If the price rise was purely due to increased cost then the profits of carmakers would have remained unchanged.

What is most interesting from the pricing data of the entry level models presented in this briefing is the decrease in prices witnessed for BMW and Peugeot (Stellantis) since May of this year. The data suggests that the increased supply of new cars to the EU market (which has witnessed growth for the last 12 consecutive months<sup>25</sup>) caused by the ending of last year's semiconductor shortage is resulting in greater price competition between carmakers. Now that supply of new cars has increased, there is more competition between carmakers and carmakers have had to reduce prices to maintain their market share (although they are still higher than in 2019). It also indicates that a substantial share of the higher price in May compared to October this year (+€1,300-€3,830) for BMW's and Stellantis' cars was likely due to carmakers pricing cars to make higher profits rather than purely due to higher production costs. This is

<sup>22</sup> J.P. Morgan (2023, 02, 22) [Inflation and the auto industry: When will car prices drop?](#)

<sup>23</sup> BMW. (2022) [BMW Group report 2022](#).

<sup>24</sup> T&E. (2023) [Euro 7: Carmakers' record profits made at expense of human health](#).

<sup>25</sup> ACEA. (2023, 08, 30) [New car registrations: +15.2% in July, battery electric 13.6% market share](#).

supported by statements from Stellantis' CEO earlier this year forecasting that carmakers will have to go back to more conventional pricing and profit models this year as seen before the Covid-19 crisis<sup>26</sup> (i.e. one which is based on higher volumes and lower profit margins rather than the higher profit low volume model seen over the last few years).

The large price increases seen for cars in recent years, even for entry level cars, coupled with carmakers extraordinarily high profits during this period raises the question of why carmakers are prepared to raise prices by thousands of euro's and make cars significantly less affordable for European consumers to make record profits but fight tooth and nail against life saving anti-pollution technologies which cost just €200<sup>27</sup> per car and which at most would raise the price of new cars by this amount. It shows that even after the dieselgate scandal Europe's carmakers prioritize profit ahead of people's health and it is up to European policymakers to ensure that the the interests and health of European citizens are protected. To ensure this, it is imperative that in the upcoming vote on the Euro 7 standards that Members of the European Parliament support a more robust Euro 7 than has been agreed within the Parliament's Environment Committee which weakens key aspects of the Commission's Euro 7 proposal including on emission limits and testing which are critical for reducing the large amount of toxic pollution still produced by new cars today.

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<sup>26</sup>Financial Times (2023, 02,22) [Stellantis chief forecasts car prices to fall this year as discounting returns.](#)

<sup>27</sup> European Commission. (2022) [Euro 7 standards: new rules for vehicle emissions.](#)