The automotive industry is changing gears with the electrification megatrend

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“All of the cars were once just a dream in somebody’s head” (Peter Gabriel).

It’s true. Nothing new comes into existence without a pioneer who has a vision for the future. When it comes to cars, we have legends like Henry Ford and Karl Benz to thank for changing the world with a novel technology and leaving behind their legacies with brands that still endure today.

But Peter Gabriel’s song lyrics can be considered from a different perspective too. Cars are something consumers also dream about. Many people have an attachment to the cars they drive, or want to drive, that is very different to other possessions. It is therefore noteworthy that, after being around for thirteen decades, the automobile today is at a turning point like never before. Consumers find themselves at a crossroads having to make unfamiliar decisions. After all, the relatively arbitrary choice between a diesel and petrol engine comes nowhere near the scale of deliberation required to take the leap into electric territory.

But it appears that the electrification megatrend has switched gears. Let’s review some of the latest developments in the sales of electric vehicles (EVs) and the road ahead.

The sales figures

Figure 1 shows that Asia Pacific has the highest rate of growth in EV sales in recent times. This region is dominated by China where consumer preferences are changing quickly and local brands are making a name for themselves.

Source: Bloomberg New Energy Finance, data as of 23 November 2022. APAC = Asia Pacific; EMEA = Europe, the Middle East and Africa.

Historical performance is not an indication of future performance and any investments may go down in value.

In 2022, China’s BYD, which has been backed by Warren Buffett since 2008, overtook Tesla as the world leader in EV sales. Among BYD’s top selling models in China is a mid-sized SUV Song, and two sedans; Qin, and Han[1]. This not only dispels the notion that BYD is operating in car categories different to Tesla, it also makes BYD a potential competitor to Tesla and other companies as it expands its presence in Europe and elsewhere.

In the UK, however, Tesla dominated in 2022 with its Model Y being the top-selling battery electric vehicle in a year when EV sales surpassed diesel car sales for the first time[2]. In Norway, where petrol and diesel cars are facing the most aggressive ban due to come into effect in 2025, EVs accounted for 79% of all new passenger car sales in 2022[3].

EV adoption is being supported by several factors. These include the proliferation of new models in different price brackets giving consumers more choice, improving battery technology reducing range anxiety, expanding infrastructure of public charging, government incentives, and changing consumer preferences for both environmental and technological reasons.

Source: Bloomberg New Energy Finance, data as of 21 December 2022.

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What the sceptics say

Still, not everyone is completely sold on the idea of EVs yet. Japanese carmakers are visibly behind European competitors in launching battery EV models. Toyota's CEO Akio Toyoda recently made waves by suggesting that EVs aren't the only way forward, despite the company being an early adopter of plug-in hybrid technology. But we must not rush to conclude that Toyota is driving down the road previously taken by disruptive technology sceptics like Kodak and Nokia. Toyota's assertion is that passenger cars will be driven by a variety of drivetrains including battery electric, hybrids, and fuel cells. Different carmakers innovating with alternative technologies is indeed the way to go if the world is to hit its climate change targets.

The road ahead

Bans on the sale of new internal combustion engine cars will be coming into effect at various points in the next two decades. Many countries are bringing these bans forward as well. In Sweden and the UK, this will be 2030 while it will be in the 2030s for several other European countries. But bans will have to be supported by holistic policy measures to ensure this new EV revolution is sustainable. The International Energy Agency proposes the following recommendations:

1. Maintain and adapt support for electric cars (with transition tools like subsidies)
2. Kickstart the heavy-duty market, that is, trucks and buses
3. Promote adoption in emerging and developing economies
4. Expand EV infrastructure and smart grids
5. Ensure secure, resilient, and sustainable EV supply chains

A lot has changed in the EV landscape in the last five years. A lot more will change in the next five. Fasten your seatbelts!

[1] Source: Counterpoint Research, 16 December 2022.

[2] Source: The Guardian, 5 January 2023.

[3] Source: World Economic Forum, 6 January 2023.

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