

Tesla dip: blip or bust?

Good morning from the Financial Times. Today is Thursday, April 4th, and this is your FT News Briefing. ① Disney's board has survived a coup attempt from an activist investor. And companies in China are setting up their own in-house militias. Plus, investors are not happy with Tesla. I'm Sonja Hutson, and here's the news you need to start your day.

② Disney and its chief executive, Bob Iger, have scored a major boardroom victory against investor Nelson Peltz. For more than a year, Peltz has been calling on Disney to cut costs and achieve, quote, Netflix-like profit margins. He's been pushing for a seat on the company's board. But at its annual meeting yesterday, Disney received enough support to defeat Peltz in his bid for a board seat. Iger announced a bunch of initiatives to please shareholders, like big cost cuts and a \$1.5bn investment into Epic Games. And Disney's share price has gained more than 50% over the past six months.

③ Tesla has been having a rough go of it lately. The car company's stock has lost a third of its value so far this year. And to make things even worse, this week it reported a big dip in vehicle deliveries. So is this a temporary stumble or is the company really in trouble? Here to explain is the FT's Ethan Wu. Hi, Ethan.

Hey, Sonja.

So why are investors so pessimistic about Tesla right now?

So Tesla just the other day reported a really sharp decline in the number of vehicles it delivered in the first quarter, down 9% year on year, which is a really significant drop, the biggest in years that it's had. And it really disappointed investors and analysts who were expecting stable — not collapsing — vehicle deliveries. So that comes on top of a long list of problems that Tesla already has. I think the one people may know is, you know, the rise of Chinese EV competitors like BYD are forcing Tesla to push harder on things like prices. Tesla has been cutting prices on its cars. That's put pressure on the amount of money it can make. And so ④ this unexpected drop in vehicle deliveries just compounds the list of problems that Tesla has already had.

How much of Tesla's list of problems has to do with the company itself versus the wider EV industry? I mean, we've talked on the Briefing before about how electric vehicles really haven't been as popular as people thought that they would be by this point.

Yeah, this is a great question. And, you know, Tesla is a big chunk of the EV market. So it's hard to separate these. But ⑤ I think what we can say, and as our colleague Peter Campbell laid out in a recent op-ed in the FT, the EV market is facing really serious challenges, specifically an imbalance

between the supply of EVs coming online and the actual demand that people have for these vehicles. You know, things like charging stations have been slow to roll out in the US. Customers, I think, have been cautious about am I going to run out of range on these vehicles? Is it going to struggle in the cold weather? And that has put a little bit of a damper on demand. At the same time that tons and tons of automakers from across the world have said, well, EVs are the future. We need to start producing these things. And there's right now a big gap between the forecasts for what carmakers are going to produce in terms of EVs and how much consumers actually want those cars.

It seems like so much of the conversation around EVs is like they will be popular, but we're just not quite there yet. ⑥ For Tesla in particular, I mean, is this just a matter of waiting it out until demand for EVs picks up?

Yeah, it could be. And I mean, that's the bull case for Tesla. That's certainly what, you know, Tesla CEO Elon Musk will be betting on. The EV market is still in early days, right? ⑦ There are a lot of government subsidies and requirements that can help encourage EV adoption. There are a lot of appealing things about EVs themselves. I think the question right now is, how long is it going to take for that adoption to take place, and will it take place to the extent that we think it will? And I think you're seeing a little bit of caution in the stock market right now on what might be possible for Tesla.

Yeah. So I do want to bring it back to the stock market right now. I mean, ⑧ Tesla is part of the so-called Magnificent 7 that are basically propping up the whole S&P 500. Given that, what do Tesla's problems mean for the market as a whole?

⑨ So any stock market label, right, from time immemorial, it involves lumping stuff together that may or may not belong together. Tesla has an important dissimilarity from the other seven stocks. You know, Apple, Google, Meta, Microsoft, these are mature companies in dominant positions in mature markets, which is very much not what Tesla's competitive position is. ⑩ And for that reason, I think you're seeing Tesla diverge from the rest of the Magnificent 7, again, down more than 30% this year, while the others are flat to, you know, even up 20 or 30%. And I think those underlying industry economics are a key factor behind that divergence.

Ethan Wu is a financial reporter for the FT and hosts the Unhedged podcast. Thanks, Ethan.

Thanks, Sonja.

⑪ Inflation in the eurozone fell to 2.4% in March. That's lower than expected and largely driven by smaller increases in the costs of things like fresh food and energy. The latest number is tantalizingly close to the European Central Bank's 2% target. The ECB meets next week to discuss

how soon to start cutting interest rates. But while the cost-of-living crisis is easing up across the region, that's not the case for all sectors. Service workers are pressing for higher wages, driving up costs in more labor-intensive areas.

⑫ Chinese companies have been setting up new military reserve units. It's something that existed during the Mao Zedong era, but their revival now is raising questions about the role China's current president, Xi Jinping, sees for these units. Ed White is a China correspondent for the FT, and he joins me now to talk about it. Hi, Ed.

Hi.

So tell me a little bit about these reserve units. What's the history there, and how did you find out about their comeback?

⑬ So these are officially called People's Armed Forces departments. And historically, and, Mao Zedong, they were basically part of the People's Liberation Army's recruitment efforts at a very local level. So these are sort of village level or county level. And that was, something that was used to basically bring people into the fold of the People's Liberation Army. Now, they've basically always existed in some form in China under the Communist Party's rule. ⑭ But what we found towards the end of last year by carrying out an analysis of company announcements and state media reports and also looking at state-owned enterprises is that dozens and dozens of Chinese SOEs, in particular, have been establishing new People's Armed Forces departments. And we also saw that this trend was happening across a small number of private companies too, which was quite something.

So Ed, what's a typical make-up of one of these units, and what exactly do they do?

So as far as we can tell, these are a group of people basically working inside a company, and they have a responsibility mostly for civil defence activities. So preparing a company and the area that they operate in for things like earthquakes, extreme weather events and any other kind of civil defence emergency. But they also have another role, which is really contributing to military recruitment, military promotion and also in some cases training for sort of military exercises. So it's not clear how much training they really have or how serious that training is. But at the same time, what we do know is that these guys are in charge of military promotional activities. So kind of demonstrating patriotism and loyalty to the party and to the state.

⑮ OK, but the military training part of this kind of makes me think that maybe there is a broader effort to beef up China's ability to wage war. Is that the case?

Really, we don't think that this is a sign that China is preparing for war. People that we spoke to said this trend probably more reflected something like an adherence to what Xi Jinping wants

Chinese officials and wants Chinese leaders to focus on, which is around security, basically trying to strengthen the state's ability to control any kind of outbreak of social instability.

⑩ So less for war in the immediate future and more in tamping down on things like protests or civil disobedience. How big of a change are we seeing in these reservist units then? I mean, how should we think about their revival?

Context is important. We're in a period now of structurally slower growth in China. There are new threats around job losses and social instability, and at the same time, an intensifying and worsening geopolitical environment in China. And so what these People's Armed Forces departments really do and why they're kind of worth following is that it's the role that they could play in the future. So there is also some other important context on this, which is that China's broader defence reforms — and this is something that's been happening since the end of 2022 — they have changed the way in which civil defence operates in China. And so there's a sort of defence mobilisation effort which is taking over civil defence responsibilities. And so that's also part of signalling this greater strengthening of the country's security capabilities. And so these defence units might become more and more important and take on more responsibility.

Ed White is a China correspondent for the FT. Thanks, Ed.

Thank you and nice to be with you.