

Sector Risk Rating



What to Watch?

- Investment in R&D is crucial for emissions reduction technology and autonomous vehicles
- Lack of geographical diversification puts turnovers and margins at risk
- Development of premium offers (brands) is key to a rise in profits
- High volatility in some emerging countries, Russia, Brazil

Global sales crawl up before a slight slowdown in 2017

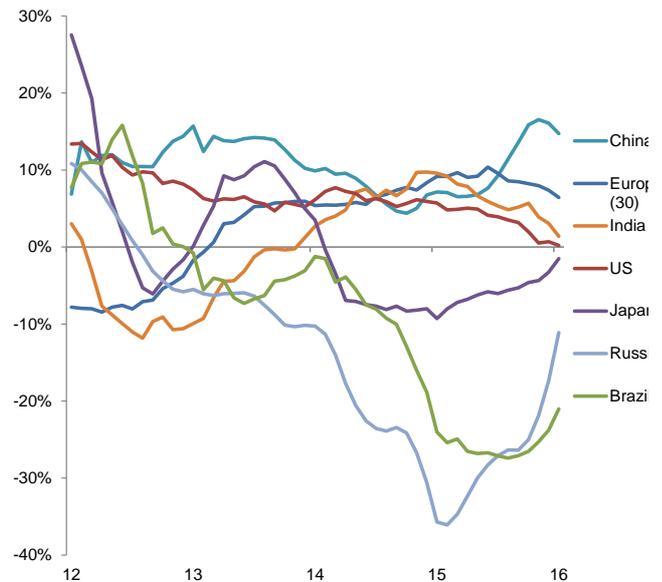
The car industry faces challenging times. Suffice to mention the rise of the shared economy, new partnerships with disruptive tech companies, the race to launch autonomous vehicles and - at the same time - diesel scandals rocking big players. Yet a global presence remains a must for car manufacturers to benefit from global growth.

The three key markets for sales are China, the US, and Europe. In China, sales grew by +15% (24 million units) in 2016, but a slowdown to around +5% is expected in 2017. US sales grew by +0.2% (17.9 million units) in 2016 but a contraction of -1% is expected in 2017. In Europe, sales expanded by +7% (15 million units) in 2016, while "0%" growth is forecasted in 2017 due to the Brexit effect and the end of Spain's incentive regime. A -1.5% decrease in Japan is caused by the continuously adverse effects of the VAT increase in April 2014.

Brazil and Russia continue to suffer from the economic crisis. Markets have contracted by -21% and -11% respectively. We anticipate a subtle recovery in 2017.

Car manufacturers need to adapt their offerings to stay competitive. Low-cost models should be rolled out for India, larger Sports Utility Vehicles (SUVs) for the United States, and medium and premium models for all markets.

New car registration evolution
(rolling 12-months, in %)



Sources: OICA, Euler Hermes

Key Players

| Country | Role | Sector Risk |
|----------------------|----------------------------|-------------|
| United States | #1 importer #2 exporter | ● |
| Germany | #1 exporter #2 importer | ● |
| China | #1 producer #6 exporter | ● |

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Strengths

- Continued global market growth despite challenges
- High level of profitability in the United States and China
- Recovery in Europe after several years of decline

Weaknesses

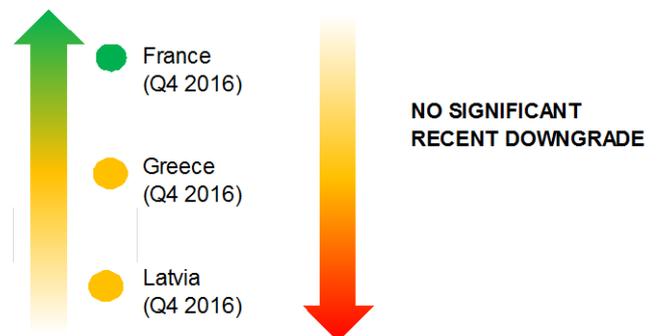
- High level of investments in new technology, clean energy, and autonomous vehicles
- Huge difficulties in some emerging countries, principally Brazil and Russia
- Stringent environmental requirements (pollution, CO2 emissions)

Subsector-Insights

Auto suppliers: Global presence is a must - and so is the collaboration with car manufacturers - to achieve a higher pricing power and level of profitability.

Carmakers: The new deal is to be present in all markets. Sales volume is a key strategy to cope with a high level of investments and spending on R&D.

Recent Sector Risk Changes



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