



# Automotive in the UK

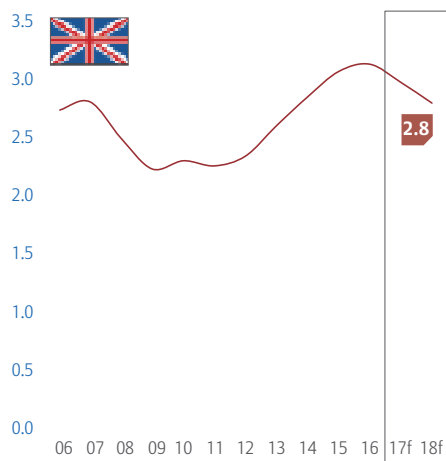
## Confidence Brakes

- Sales growth will continue to face the impact of Brexit on consumer confidence
- While vehicle sales are down, electric vehicle sales are up sustained by regulatory measures
- British suppliers enjoy one of the highest operating margins in the world

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The British vehicle market is expected to contract -5.0% in 2017 and -6.0% in 2018. This year marks the end a five-year period of strong sales growth (spurred by cheap auto financing deals). Dealership finance has cooled off, as consumers increasingly turned to used cars due to their plummeting prices. While the risk of rising defaults from mounting consumer debt is reduced, this will have a dampening effect on new vehicle sales. Both markets have however been slowing down markedly since last year owing to the persistent uncertainty of Brexit, the weak exchange rate, and waning business and consumer confidence, which will have knock-on effects on new vehicle sales in the upcoming years.

**Chart 1** New Vehicle Registrations (in million)

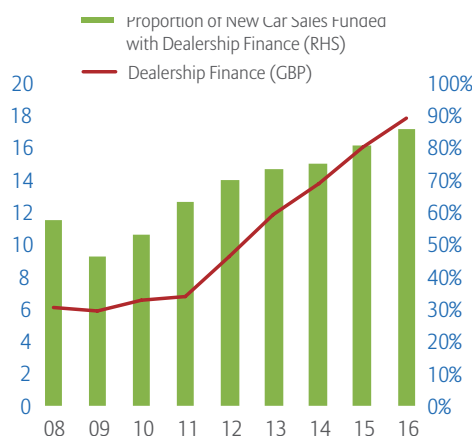


Sources: OICA, IHS, Euler Hermes forecasts

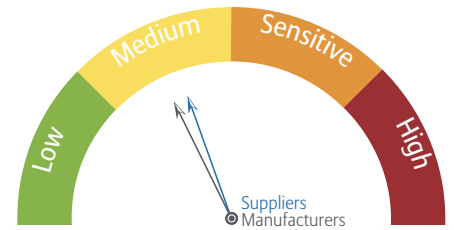
### Margins spared, for now

With an EBIT margin of 8.6% in 2016, British suppliers achieved one of the highest values in our panel of countries. Total capital expenditure in the UK is rather weak relative to Germany, France, and Italy. Solvency remains strong and liquidity in the form of working capital requirements is above the world industry average. So far, the health of the industry has withered the Brexit fallout. There is reason to believe however that the weak pound frontloaded the benefits cheaper exports, with rising import costs and heightened uncertainty to act as headwinds to both margins and growth. We expect that Brexit will eventually hurt the profitability of the entire sector.

**Chart 2** Annual Dealership Finance for New Car Purchases in the UK



Sources: Bank of England, Finance & Leasing Association



Automotive Non-Payment Risk (Q2 2017)

### A story of Public Private Partnerships

In 2015, British R&D in the automotive sector amounted to EUR1.8bn, the lowest among the countries reviewed. Of greater significance are private and public initiatives aimed at bolstering low carbon and connected technologies. In July 2017, the Advanced Propulsion Centre (APC) announced the Faraday Challenge (with government funds of GBP246 mn.) aimed at developing the EV supply chain in Britain by creating a national battery manufacturing facility. The ultimate purpose is to scale up the technology and entice international manufacturers and suppliers. While Brexit may impact sales growth already (since 50% of the cars produced are exported to Europe), there may be second order consequences on the automotive sector funding, a bulk of which is provided by EU R&D funding.

### EV sales grow despite lack of infrastructure

British consumers brought forward vehicle purchases to H1 2017 to beat the revised Vehicle Excise Duty (VED), which includes the introduction of a flat fee for vehicles emitting more than 100g CO<sub>2</sub>/km. In a similar vein, the government's announcement to ban the sale of diesel and petrol cars by 2040 has already forced some consumers to rediscount the purchase of cars with internal combustion engines. We therefore expect sales of electric vehicles to expand at a solid two-digit growth rate. Regarding financial incentives, the UK lies below the average, with only 15% of an EV's retail price subsidized. The current charging networking must be expanded, where only about 18 fast chargers per thousand vehicles are accessible. ■