# Automotive industry: Europe slows down, the world drives on


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# Worldwide vehicle production growth is back on track…

## Worldwide vehicle production (PCs and CVs)*, in millions of units

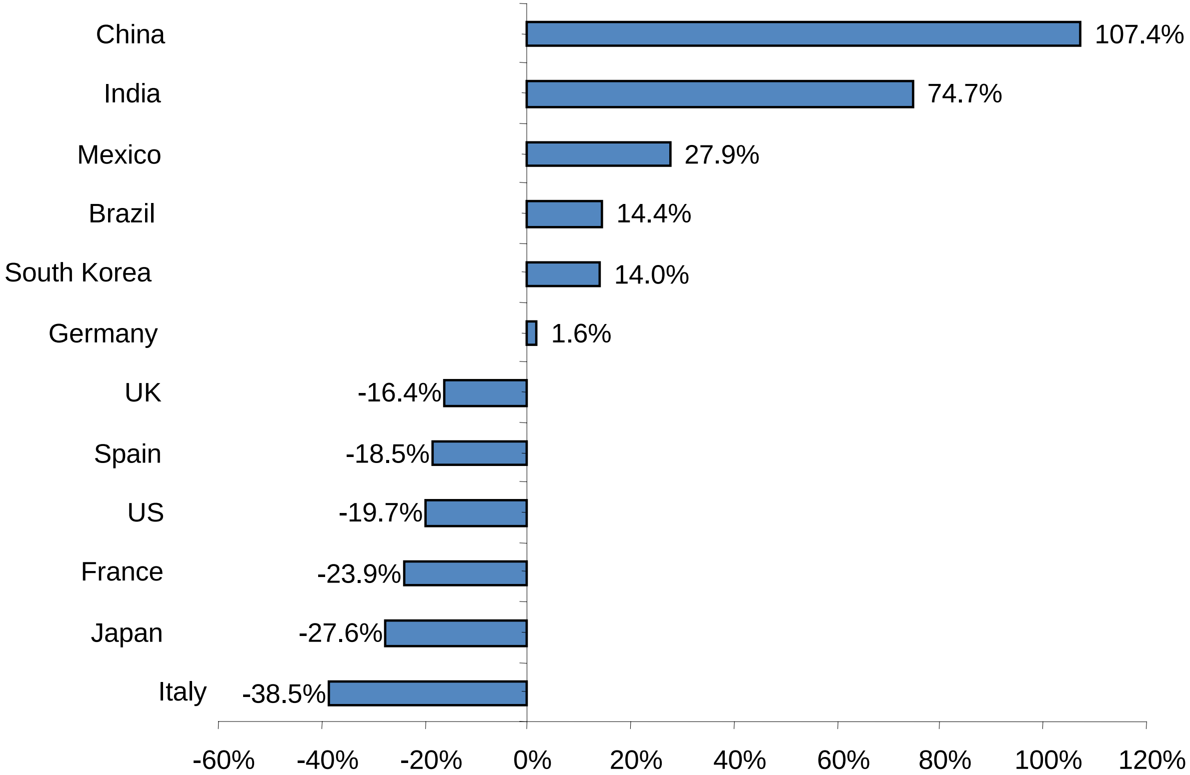

| Year | Production (million) | Change (y/y) |
|---|---|---|
| 2007 | 73.1 | 6% |
| 2008 | 70.5 | -4% |
| 2009 | 61.8 | -12% |
| 2010 | 77.9 | 26% |
| 2011 | 80.1 | 3% |
| 2012 (f) | 83.3 | 4% |
| 2013 (f) | 86.9 | 4% |

*PCs: passenger cars
CVs: commercial vehicles

Sources: OICA, Euler Hermes forecasts

# … But the balance has shifted and production has moved to new economies

## Vehicle production (PCs and CVs) by country in 2007 and 2011




| PC and CV production (million) | 2007 | 2011 |
|---|---|---|
| China | 8.9 | 18.4 |
| India | 2.3 | 3.9 |
| Mexico | 2.1 | 2.7 |
| Brazil | 3.0 | 3.4 |
| South Korea | 4.1 | 4.7 |
| Germany | 6.2 | 6.3 |
| UK | 1.8 | 1.5 |
| Spain | 2.9 | 2.4 |
| US | 10.8 | 8.7 |
| France | 3.0 | 2.3 |
| Japan | 11.6 | 8.4 |
| Italy | 1.3 | 0.8 |

Source: OICA

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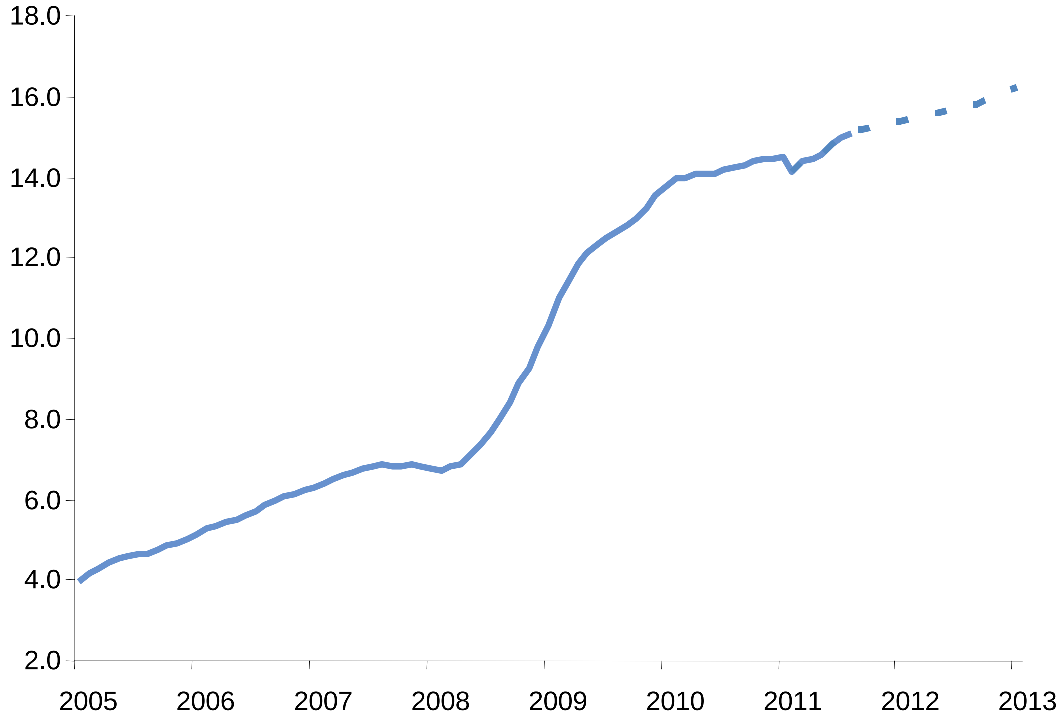
# China: stimulus-package euphoria in 2009-2010 has subsided and the market is growing at a 'healthy' 6% pace again

## PV registrations (year on year, millions of units)

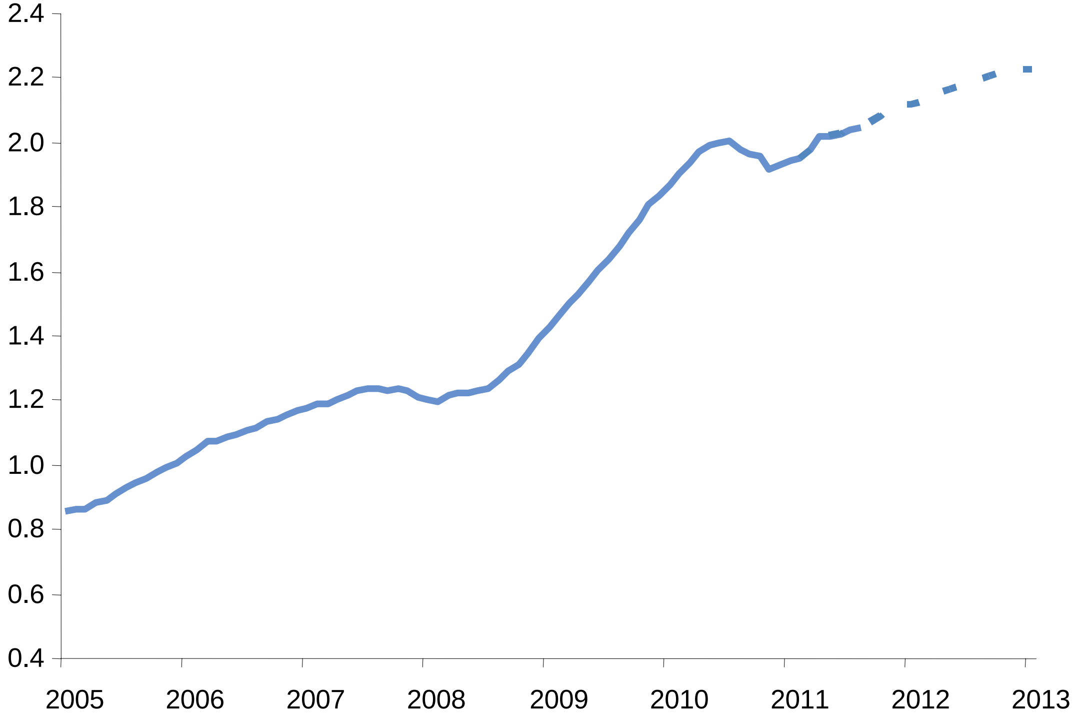



- Market growth should settle near 6% in 2012 and 2013
- Growth potential is still exciting (vehicle equipment rate less than 5%)
- But the pre-owned vehicle market is emerging

Sources: China Association of Automobile Manufacturers, Euler Hermes forecasts

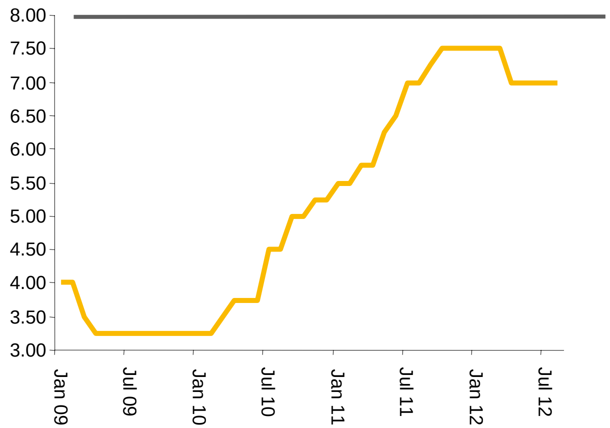
# India: the market is picking up because interest rates are heading down (but they are still high)

## PV registrations (year on year, millions of units)




- The market is growing at about 5% a year again, but is still small

### Interest rates

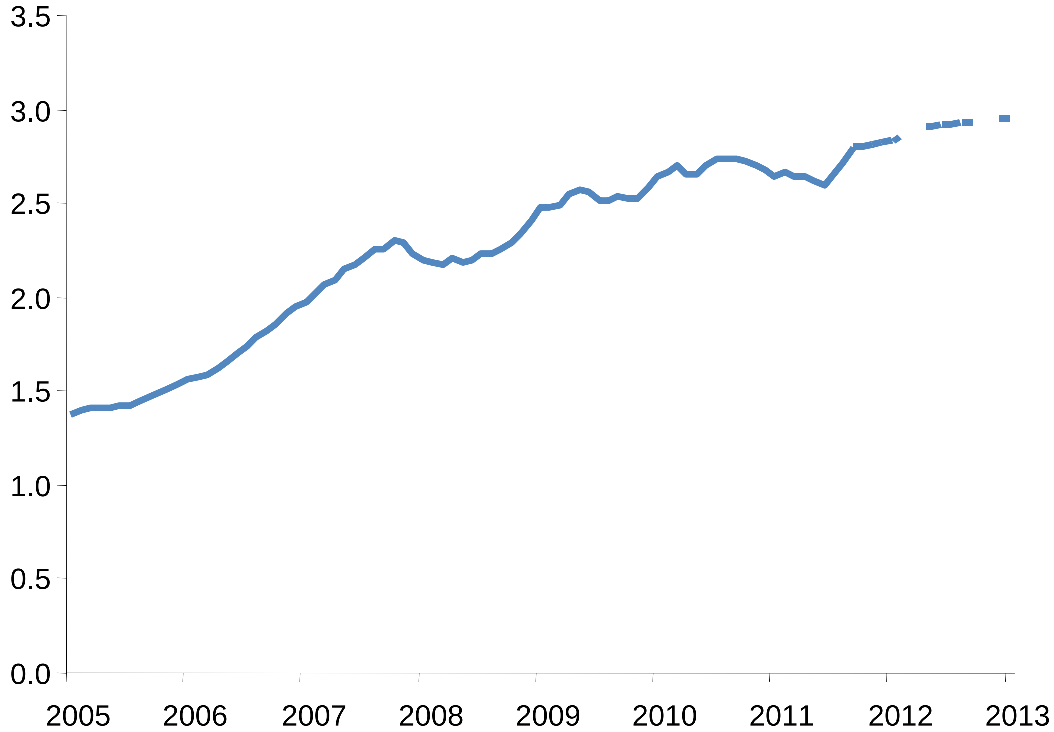



Sources: Society of Indian Automobile Manufacturers, Euler Hermes forecasts

# Brazil: revving up for a fresh boost?

The Government cut its tax on industrial goods (IPI) in Spring 2012 to stimulate the local automotive market, probably through end-October 2012.

## PV registrations (year on year, millions of units)

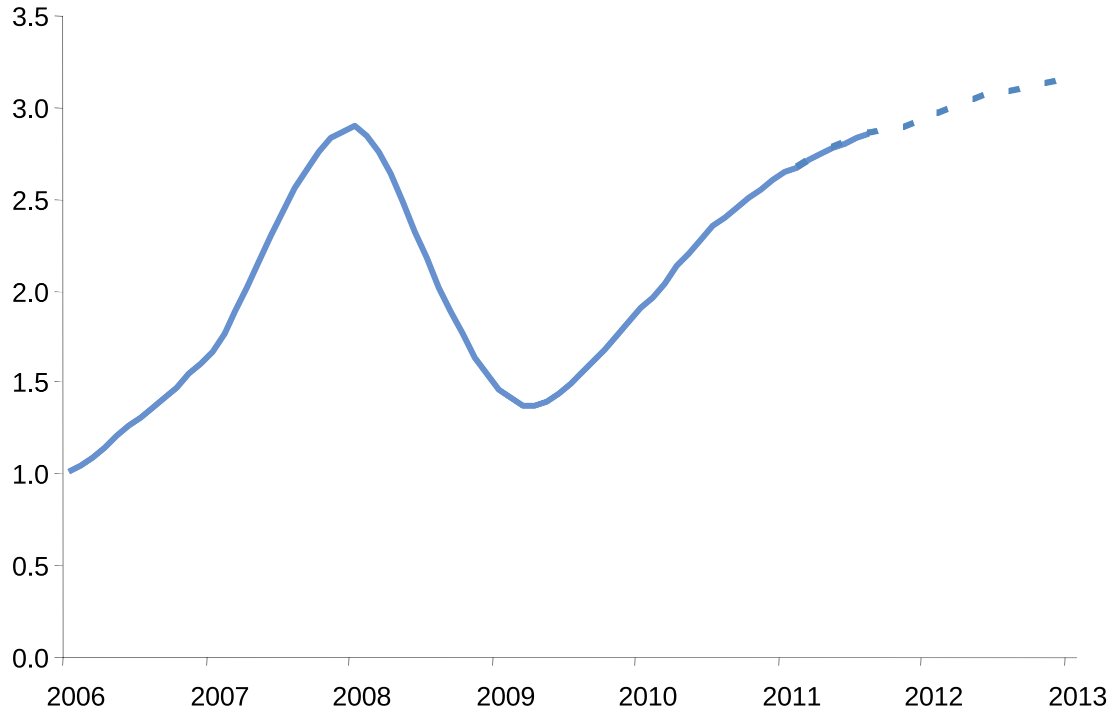



- IPI on vehicles with 1-litre engines made in Brazil or imported from other Mercosur countries or Mexico will drop from 7% to 0%
- IPI on vehicles with ‘flex-fuel’ 1 to 2-liter engines made in Brazil or imported from other Mercosur countries or Mexico will drop from 11% to 5.5%
- Government also asked private banks to lower interest rates
- Forecasts put growth at 7% in 2012 and 4% in 2013

Sources: Associação Nacional dos Fabricantes de Veículos Automotores, Euler Hermes forecasts

# Russia: Europe is looking for a new driver

## PV registrations (year on year, millions of units)

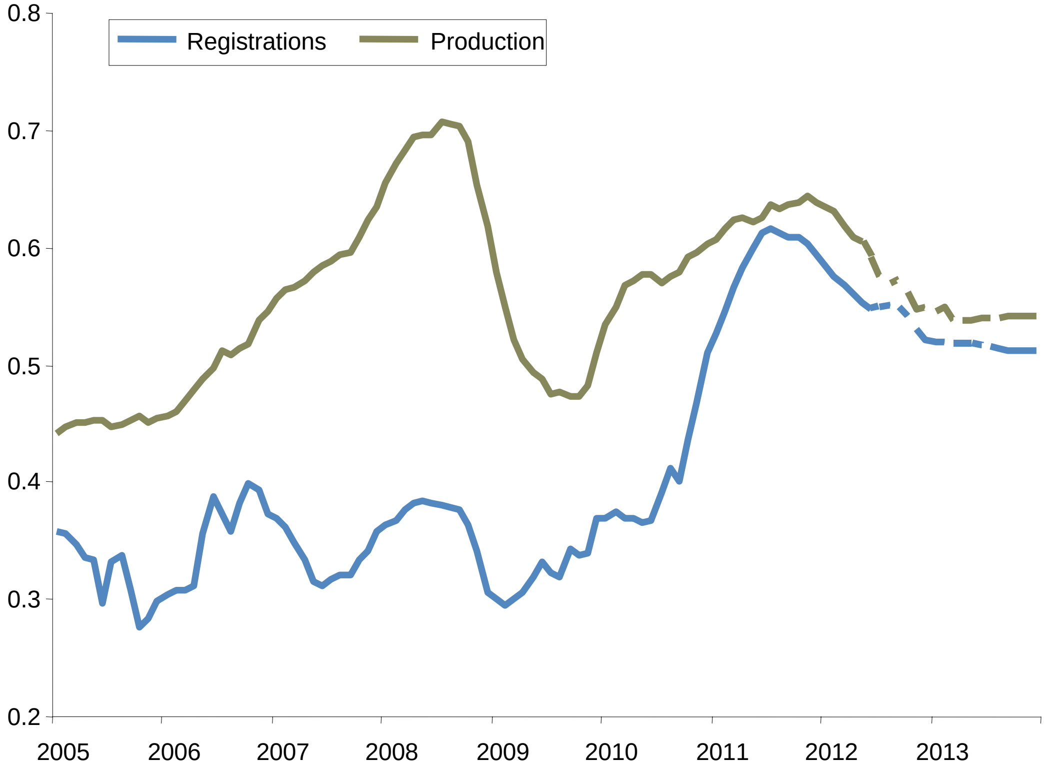



Sources: national statistics, Euler Hermes forecasts

- Prospects in the Russian market are exciting
- Vehicle equipment rate is low (near 25%)
- And vehicles are old (>10 years on average)
- This market should grow 11% in 2012 and 5% in 2013

# Turkey depends on the eurozone

## PV registrations and production (year on year, millions of units)




- Market has been nose-diving since H2 2011
- 73% of production is exported, principally to eurozone
- 72% of registered vehicles are imported
- Medium-term outlook is nevertheless positive because level of equipment rate is only 10%
- Market should plateau in 2013 after 12% drop in 2012

Sources: national statistics, Euler Hermes forecasts

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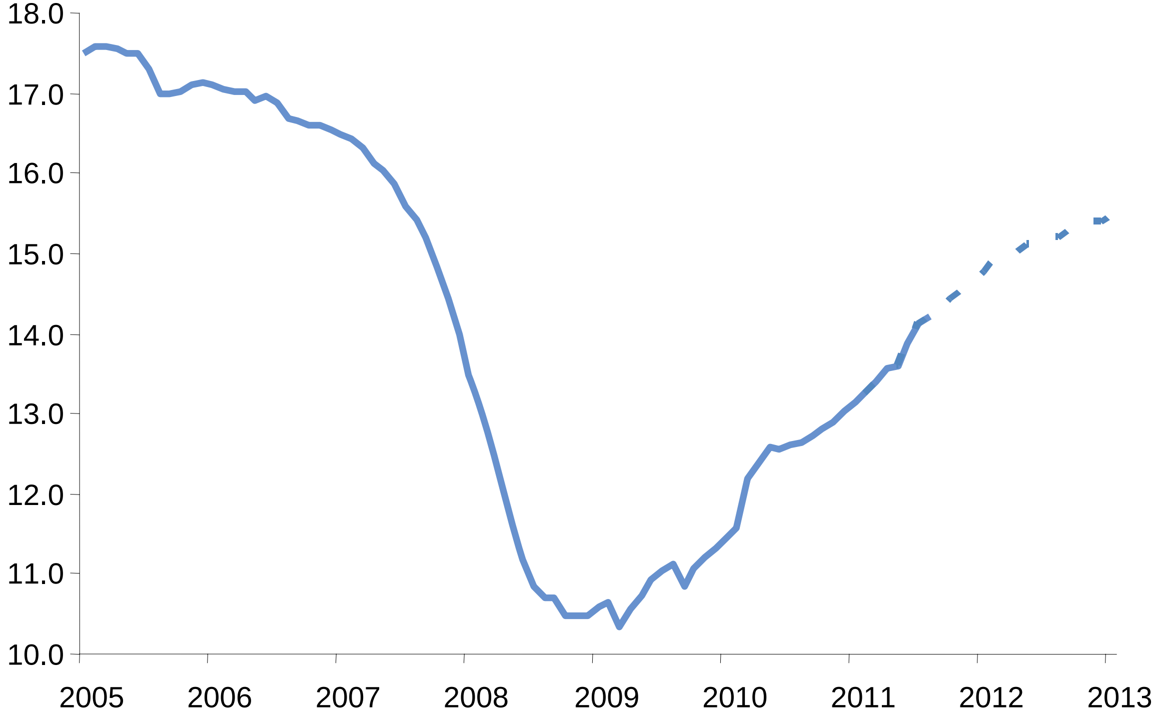
# U.S.: the market is not yet back at pre-crisis levels but is climbing the slope nonetheless

## PV registrations (year on year, millions of units)

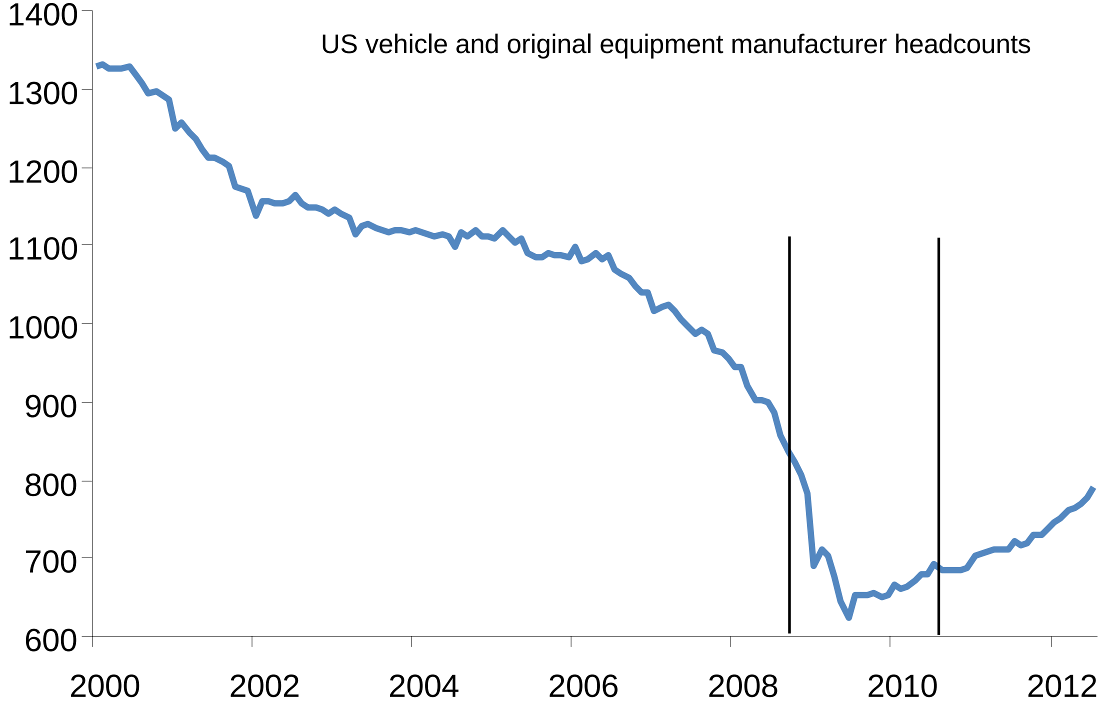



- Market will grow 12% in 2012 and 5% in 2013
- But it will not yet reach pre-crisis levels (still 1.5 million vehicles below)

Sources: Auto Alliance, Euler Hermes forecasts

# The fierce reshuffle is over and the sector is creating jobs again (100,000 over the past two years)

## Headcounts have plummeted more than 50% since 2000




Sources: national statistics

**US carmaker market shares had been shrinking for a decade when the 2008-2009 crisis dealt them a second blow**

**GM and Ford had already lost over $60bn in 2006 and 2007. They closed 18 plants.**

# American companies are growing profitably again

In 2011, U.S. carmakers benefited from the difficulties that Japanese manufacturers encountered due to the earthquake and ensuing tsunami. In 2012, however, U.S. losses deepened in Europe and are eroding their overall profitability.

| United States | 2010 | 2011 | 2012 (f) | 2013 (f) |
|---|---|---|---|---|
| Revenue change | 18.2% | 8.3% | -1.5% | 3.9% |
| Operating profit rate (profit from operations over revenue) | 7.4% | 6.5% | 4.7% | 5.5% |

Sources: GM and Ford aggregates, consensus

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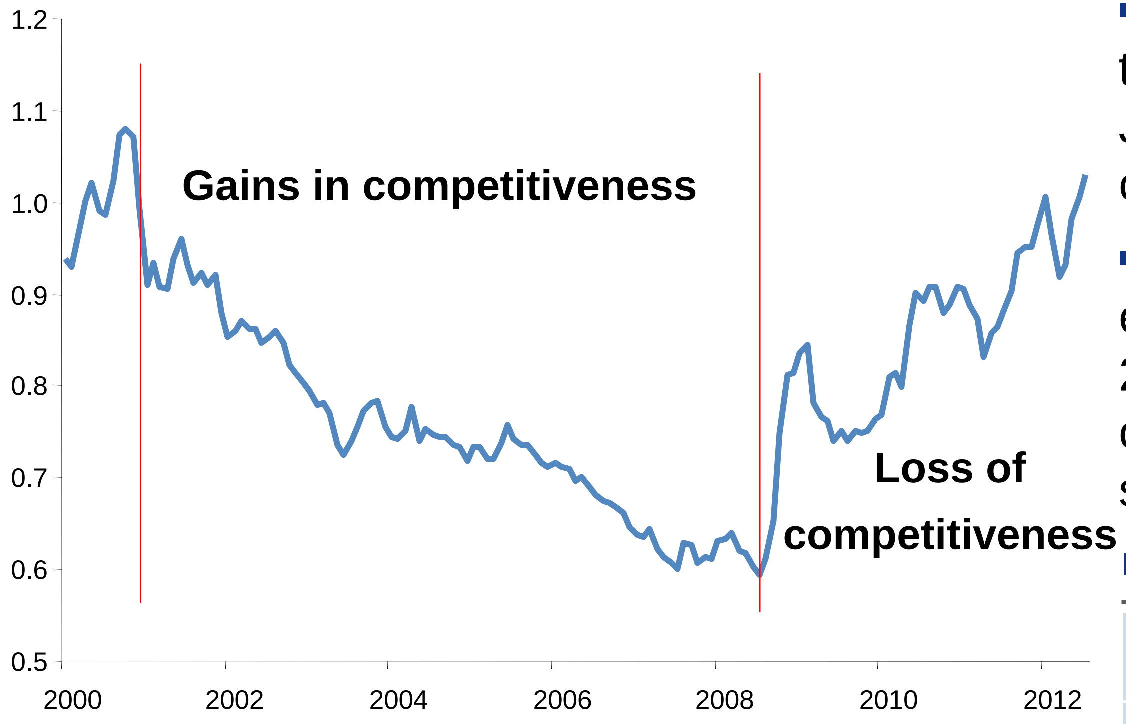
# Japan: the rising yen is still weighing on competitiveness

## Yen/Euro exchange rates (¥100 to €1)



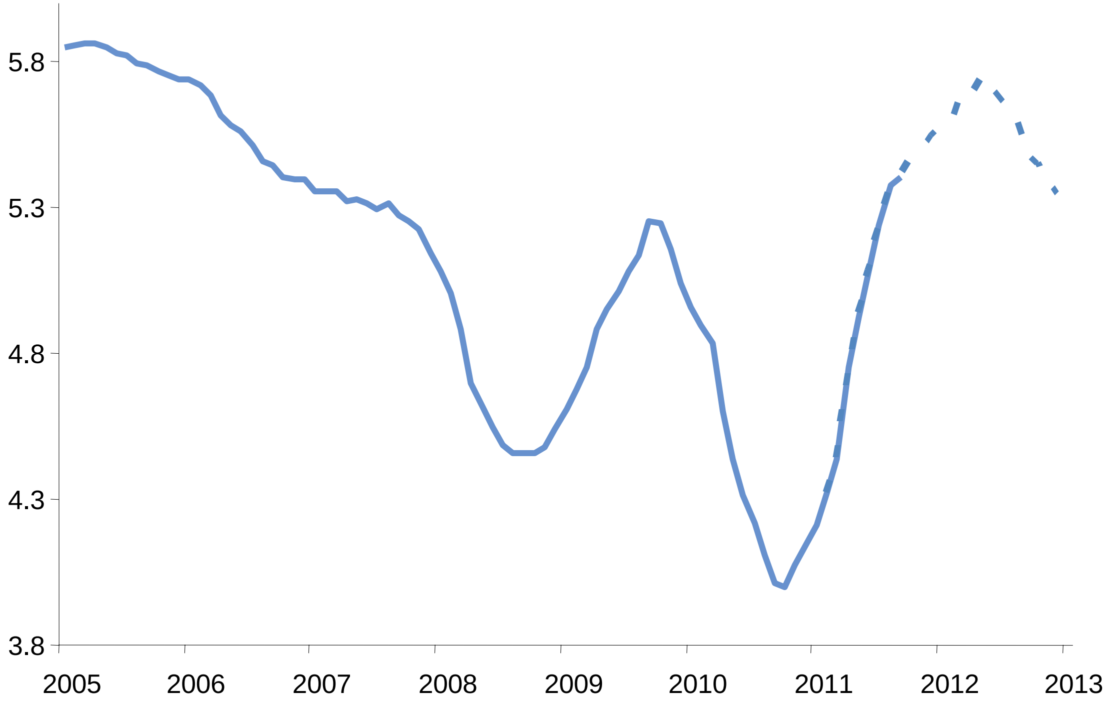

- The yen's 40% drop against the euro in 2001-2008 gave Japanese manufacturers a competitive edge
- The yen has been back at early-2000s levels since mid-2008, shattering the country's competitive advantage and shifting production away

**Production (millions of units)**

| Japanese manufacturers | 2007 | 2011 |
|---|---|---|
| In Japan | 9.9 | 7, 2 |
| Abroad | 11.9 | 13.4 |
| Japanese share in production | **46%** | **35%** |

# Japan: the market is weathering a fierce storm, and shrinking over the long term

## PV registrations (year on year, millions of units)




Sources: Jama, Euler Hermes forecasts

- 2008 crisis disrupted the market
- It bounced back on the stimulus packages in 2009-2010
- It collapsed in 2011 after the earthquake and tsunami (over 1 million unsold vehicles)
- It will bounce back 30% in 2012 before shrinking 5% in 2013 and settling at 5.3 million units

# The yen's rise is hampering manufacturers' profits

Profits have halved compared to the mid-2000s

| Japan | 3/2007 | 3/2010 | 3/2011 | 3/2012 | 3/2013 (f) |
|---|---|---|---|---|---|
| **Revenue change** | 12.2% | -11.1% | 5.7% | -2.6% | 19.0% |
| **Operating profit rate** (profit from operations over revenue) | 8.0% | 2.0% | 3.9% | 3.0% | 4.5% |

Sources: accrued Toyota, Nissan, Honda, Mazda and Mitsubishi data, consensus

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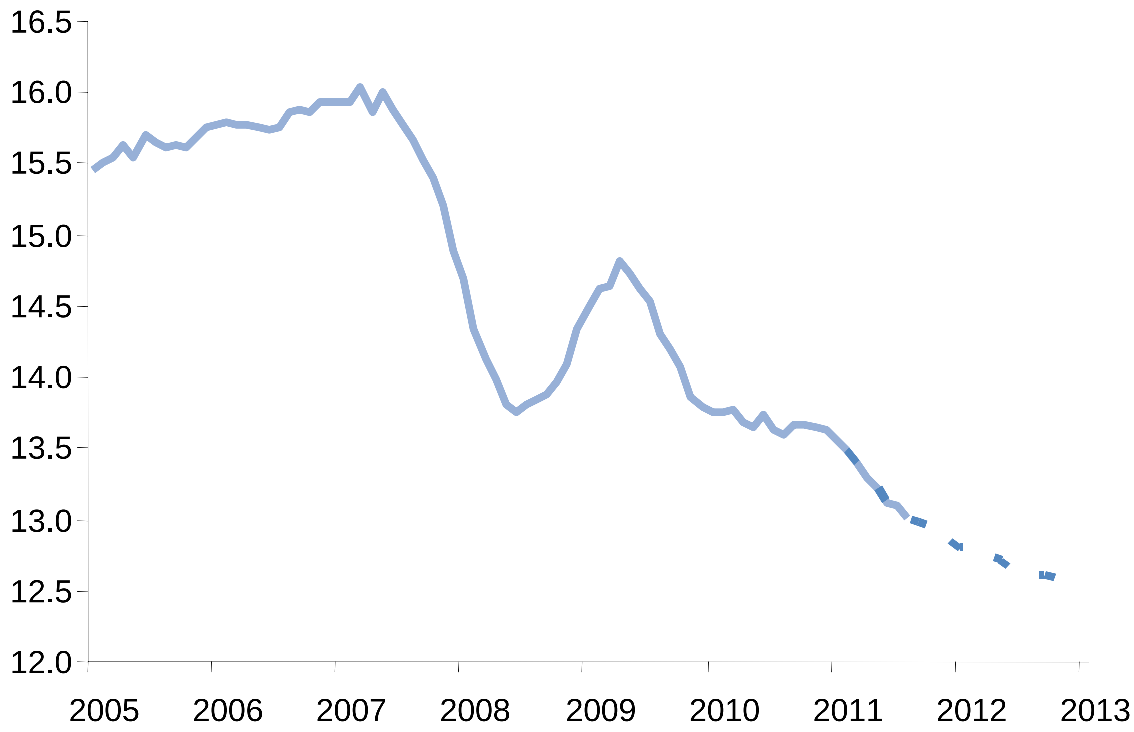
# Europe: the market is in a long-term slump

## PV registrations (year on year, millions of units)

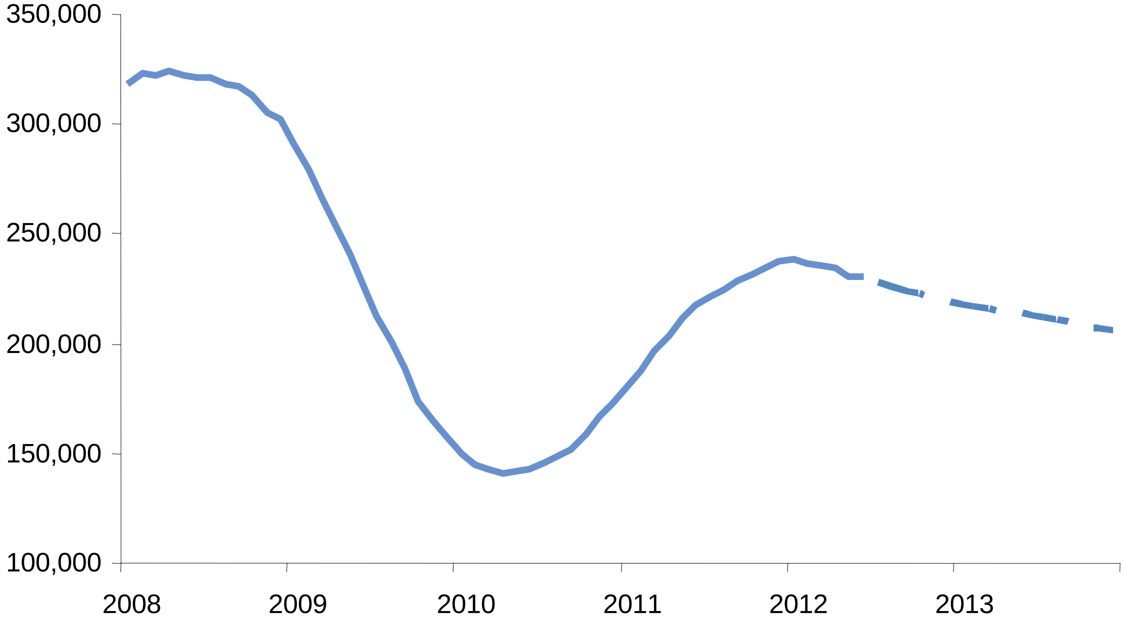



Source: ACEA, Euler Hermes forecasts

- After dropping 6% in 2012, the European market is expected to shrink 2% to 3% in 2013
- Southern European markets particularly will be very tough
- Volumes are 20% below pre-crisis levels, i.e. 3.5 million units fewer

# Tangent 1: heavy vehicles will not offset wheezing growth

## CV (over 17T) registrations (year on year, units)




- The CV market will be soft for a long time
- It should plummet 8% in 2012, and drop 5% deeper in 2013
- Volume will be 1/3 lower in 2013 than in 2008

Source: ACEA, Euler Hermes forecasts

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# Tangent 2: European equipment manufacturers reorganized their production capacity in 2008-2009 and stepped up their international expansion

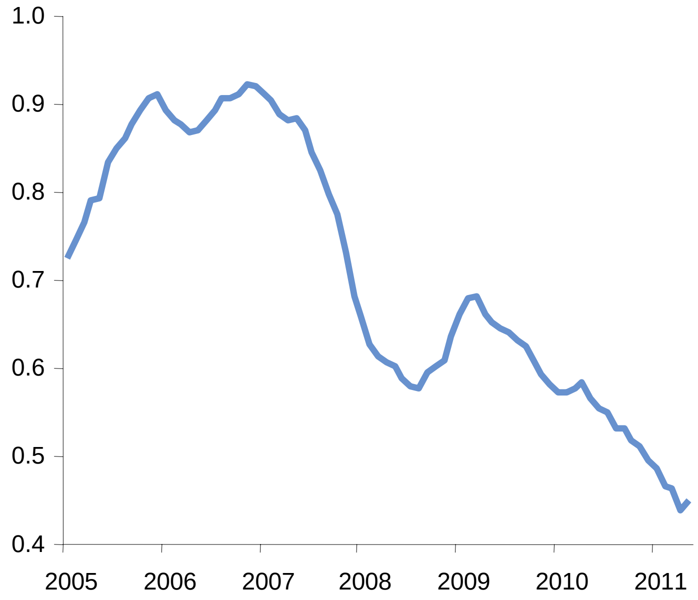
In 2010, equipment manufacturers put their operating profits back where they were in the early 2000s

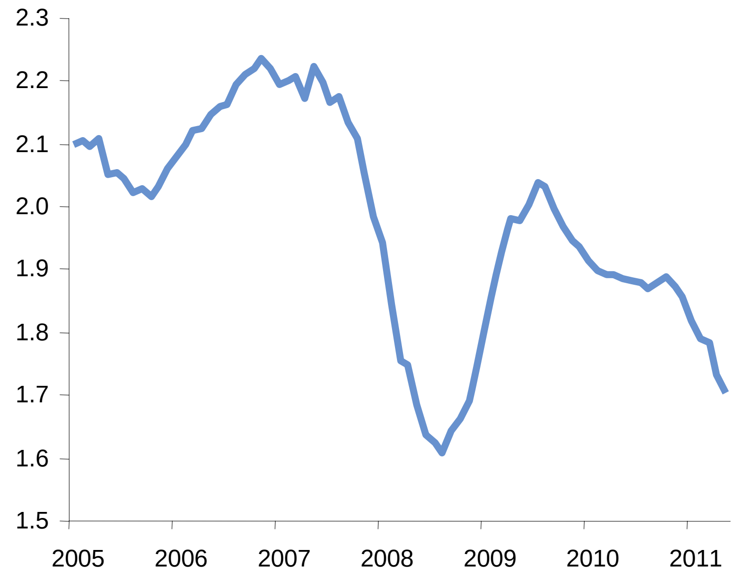
| Europe | 2008 | 2009 | 2010 | 2011 | 2012 e | 2013 p |
|---|---|---|---|---|---|---|
| **Revenue change** | 12.0% | -17.8% | 34.7% | 16.9% | 7.6% | 6.1% |
| **Operating profit rate** (profit from operations over revenue) | 3.4% | 2.1% | 6.9% | 7.1% | 6.8% | 7.1% |

Sources: accrued Continental, Faurecia, Valeo, Autoliv and Plastic Omnium data, consensus

# Production in Southern Europe: the shuffle is just starting

## PV production (year on year, millions of units)




**Italy:** production has halved since 2007. Fiat still has 5 plants in Italy after closing Termini (Sicily) in 2011

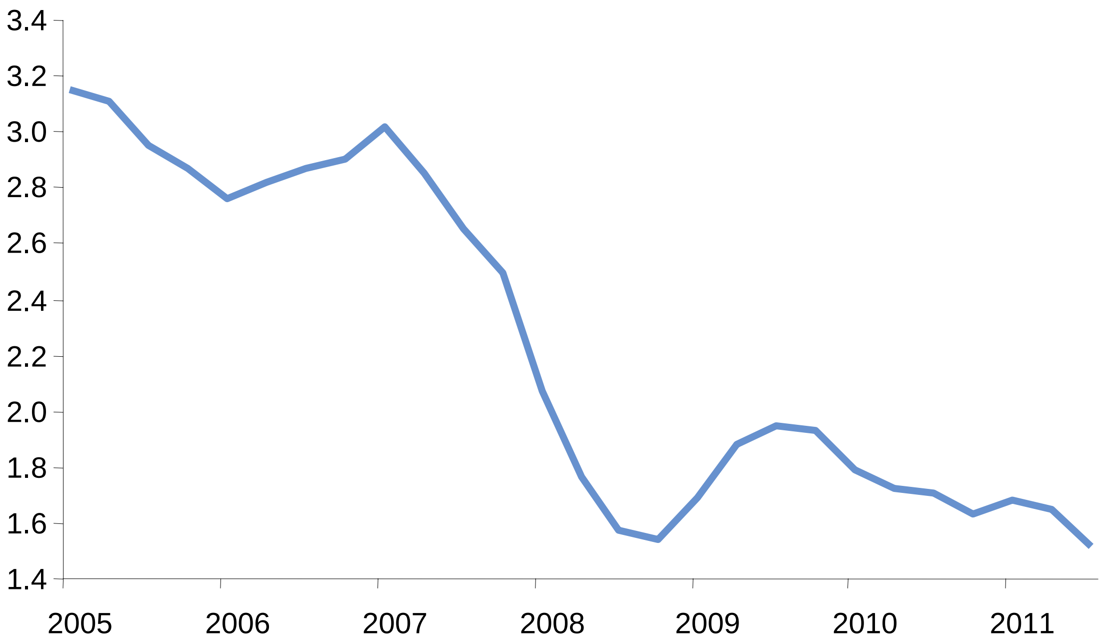
**Spain:** cost structures are efficient but production fluctuates in synch with the market, and is 26% lower than in 2005




Sources: national statistics

# France: local PV manufacturers have seen production dive more than 50% since 2005

## PV production (year on year, millions of units)




Source: national statistics

- After the market collapse and production relocation, French plants are making roughly 1.5 million cars
- After downsizing plants (cutting the number of production lines), it is time to make more drastic decisions and take a new look at fixed costs (e.g. plans to close the PSA plant in Aulnay, near Paris)

# France: broad-based vehicle manufactures need to juggle dwindling volume in Europe and limp international expansion

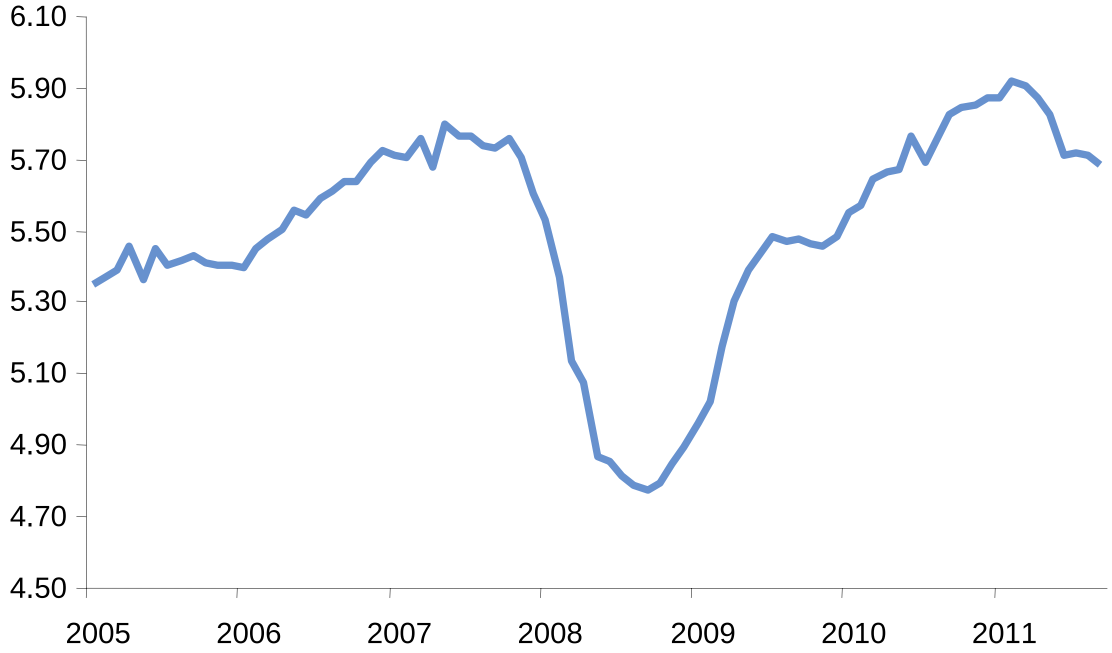
French vehicle manufacturers have seen their profits crumble in 2011 and 2012, and need to embark on heavy, costly rightsizing.

| France | 2010 | 2011 | 2012 e | 2013 (p) |
|---|---|---|---|---|
| **Revenue change** | 15.7% | 7.9% | -3.3% | 4.1% |
| **Operating profit rate** (profit from operations over revenue) | 2.9% | 2.1% | 1.0% | 2.0% |

Sources: accrued PSA and Renault data, consensus

# Germany: production is sputtering but still clinging to high levels

## PV production (year on year, millions of units)




Sources: national statistics, VDA

- German production is back at pre-crisis levels
- But the downturn across Europe started to hit in H1 2012
- Opel (which shut its plant in Antwerp in 2010) and Ford could be cornered into rightsizing production capacity

# Germany: premium position supports profits and exports

Germany manufacturers are offsetting the decline the European markets with international sales, inter alia riding robust growth in China (their largest international market: 2.7 millions vehicles sold there in 2011) and recovery in the U.S. (their second-largest foreign market, 1 million vehicles).

| Germany | 2010 | 2011 | 2012 e | 2013 (p) |
|---|---|---|---|---|
| **Revenue change** | 21.4% | 17.4% | 12.1% | 4.2% |
| **Operating profit rate** (profit from operations over revenue) | 6.1% | 7.4% | 7.5% | 8.3% |

Sources: accrued BMW, Daimler and VW data, consensus

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# Conclusion

- The worldwide market is growing 4% a year today, but production and consumption have shifted to the new economies

- The sharp upswing in the U.S. automotive market has been dampened by the downturn in Europe, and Japanese manufacturers are still struggling with the strong yen

- Emerging markets have been stabilizing (at a respectable pace) in 2012, in particular due to public and private support in Brazil and India

- In Europe, lastingly soft demand and scant profitability will necessarily corner broad-based vehicles manufacturers into adjusting their industrial capacity

- An effective international presence and product range is essential – more than ever– to generate decent profits and to finance investments and research, as equipment manufacturers are doing