Press release

Euler Hermes Study: A two-speed global automotive market, challenges for the future

- The global automotive market remains divided in 2016: Europe, China and the U.S. experience strong new vehicle registration growth while India marks time, Japan slips, and Russia and Brazil continue to nosedive. Public policies (tax incentives, monetary policy, political risks) will dictate the dynamics of many markets.
- Despite good results, manufacturers are stuck between slowing production (+2% in 2016 and +1% in 2017) and huge investment requirements for a carbon-free, autonomous future.

PARIS – 13 SEPTEMBER 2016 - Euler Hermes, the world leader in trade-credit insurance, published its latest study on the automotive sector 'Public bumpers for the automotive market'. It provides forecasts for sales growth, as measured by registrations, for 2016 and 2017, and outlines various challenges facing the automotive market.

A two-speed global automotive market in 2016

Russia and Brazil are out of the race, India and Turkey are slowing, Japan is slipping

In 2016, the economic and political uncertainty in emerging countries is having a direct effect on the automotive market.
"The continued decline in Brazilian markets (-19% in 2016) and Russia (-11%) is very sharp, with registrations down by 50% in less than four years. The oil counter-shock, the funding crisis and political uncertainties are expensive for both Russia and Brazil. Both are still in recession, as are their automobile markets," says Ludovic Subran, chief economist at Euler Hermes.

New vehicle registrations in India (+1%) and Turkey (-1%) have slowed in 2016.
"Despite a population of more than one billion, only 2 million vehicles are sold in India per year. Manufacturers are trying to grow the market with an ultra low-cost offer, but are hampered by low household purchasing power and limited road infrastructure," explains Yann Lacroix, sector advisor at Euler Hermes.
In Turkey, political instability has created a climate of uncertainty, which does not bode well for a sales recovery.

In Japan, the automotive market has been volatile for several years for several reasons, from the price of the yen to economic stimuli. After a -14% fall in 2015, following a VAT increase, Japanese registrations are expected to stabilize in 2016. Sales growth might even be on the horizon for 2017 due to the postponement to 2019 of the VAT hike initially scheduled for April 2017.

Europe moves up a gear, things heat up in the US, and China puts its foot back on the gas.

2016 will be the third consecutive year of sales growth in the European car market, with a potential of +5.5% . All European countries will contribute to the region's sound performance.

"Italy and Spain are still playing catch-up, with sales up +10%, though this is still below pre-crisis levels,'' adds Yann Lacroix. "France (+6%) and Germany (+5%) are faring better, and should at last reach their pre-crisis levels. In the UK, registrations will peak at around 2.6 million units."
However, prudence is advised, since 2017 may be a year of stagnation, particularly in the UK and Spanish markets, which could see a -10% drop in sales due, respectively, to Brexit and the end of Spain's old car scrapping incentives.

A record year is in sight for the United States: "With a forecast 18 million units sold in 2016, the U.S. market will reach a historic high. The country continues to benefit from the oil counter-shock and the indefinite postponement of the Fed's interest rate hike. It thus enters its seventh consecutive year of registration growth (+1%). Nevertheless, the scheduled end of these boosters may cause a market contraction of -2% in 2017," says Ludovic Subran.

China, the world's largest automotive market, saw a sharp downturn in sales in 2015. An immediate response from the government, in the shape of a VAT reduction on small- and medium-sized vehicles, breathed life back into the market, which returned to growth in 2016 as a result (+8%). This strategy looks likely to be renewed in 2017, supporting new registrations (+5%).

Vehicle manufacturers await a necessary shift, despite very satisfactory results

In 2016 and 2017, vehicle manufacturers are expected to post good results, thanks to efforts made on costs, but more specifically due to the upturn in demand. In the U.S. for instance, 2016 revenues are expected to rise by +3% while operating margins are expected to remain at around 4.7%. In Europe, German manufacturers should post operating profitability of 7% in 2016, while France records nearly 4.5%. Revenues are expected to grow by +6% in Germany and +5% in France in 2016 (respectively +4% and +3% in 2017).

However, the growth in global production slowed to around +2% in 2015 and 2016, and is expected to fall to +1% in 2017.
“This slowdown will force manufacturers to keep exploring new and often more risky markets, to adapt tools and products, and to continue to locate production facilities where costs are lowest -- especially for entry-level vehicles. They must do all this while investing in services and technology that achieve a first-class user experience,” says Ludovic Subran.

In Europe for instance, gains in competitiveness in some countries accelerated the transfer of production to low-cost countries (primarily to the south and east). Due to the strong position of manufacturers on smaller models, France and Italy both experienced significant falls in production (respectively 35% and 21% from 2007 to 2015).

“Over and above a simple cost logic, the development of new product ranges, either in terms of differentiation (SUV or 4x4) or positioning (high-end), helps to maintain good levels of production in high-cost areas. The product strategy deployed by manufacturers, combined with regional competitivity agreements, may enable the automotive industry to remain competitive and profitable, while investing for the future,” Yann Lacroix continues.

Environmental incentives and constraints (green vehicle subsidies, urban traffic reduction,) are pushing all manufacturers to position themselves on new technologies ranging from hybrid to all-electric. But the road to a fully carbon-free future is still a long one.

Yann Lacroix explains: "The investment required is substantial, particularly since it is in addition to investment in vehicle autonomy. These projects will run for many years and look likely to be the next revolution in an automobile industry that is over a century old. In 2014 alone, in the European automotive industry, this investment represented an R&D budget of €45 billion, up 8% on 2013. This makes the automotive sector the leader in terms of R&D.”

The French market gathers speed up, but French production could slow in the wake of Brexit

After growth in registrations of +7% in 2015, the French car market will continue to grow by +6% in 2016. In 2017, the anticipated growth of +3%, (2.1 million units - the standard level for car fleet renewal) would mark a return to pre-crisis levels.

However, French production remains exposed to potential Brexit consequences.

"The UK market accounts for 10% of total French automotive exports,” concludes Yann Lacroix. “The questions are around the EUR/GBP exchange rate, which weighs down UK demand and on its profitability for French manufacturers. Pricing power is weak, and a price increase would immediately affect market share in favor of local manufacturers.”

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