

Economic Outlook no.1219

July-August 2015

Special Report

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Auto market - a live wire

Economic Research



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Economic Outlook no. 1219

Special Report

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Uberize me!

LUDOVIC SUBRAN

Things are going amazingly (too) fast in today's world of disruption. The collaborative consumer is king. The Sharing or On-Demand economy and digital transformation – simply the tip of the iceberg – are just a few of the developments that are knocking traditional industries off course. At a time when the NATU (Netflix, Airbnb, Tesla and Uber) are overtaking the GAFA (Google, Amazon, Facebook and Apple), with regulators, tax specialists and policy-makers not knowing which way to turn and emerging El Dorados seen reaping the advantages of backwardness (rejecting a conventional form of industrial revolution and skipping straight to the latest technological breakthrough), while the automotive sector is certainly on the road to recovery, it could be in for a rough ride. In our report *"Auto market – a live wire"*, we nevertheless show that these new phenomena: green, connected and shared cars, are marginal (for now). The tempo in the auto sector is being set by the usual factors: growth and household purchasing power, industrial policy, investment and (incremental) innovation. China, for instance, now the world's biggest car market ahead of the U.S., is serving as an amplifier of losses and gains. Markets with considerable growth potential, such as Brazil and Russia, are collapsing, and it is hard to see what will be the next promised land for American SUVs, Japanese compact cars and French or German sedans. The industry has a lot riding on Iran, but the opening-up of the Iranian market will be a lengthy and com-

plicated process; the situations in Venezuela, Nigeria and Thailand are sore reminders that the car market is highly political. As the epitome of middle class comfort, the car as a means of mobility is seen as a basic need (even though Maslow did not include it in his hierarchy of needs!). No matter the state of the roads, the decision to acquire a car is a natural process when people have children or live too far away from their place of work. The user society is not a new concept in the car market: rental services, carpooling, taxis (and cars with drivers) have already attempted to thwart the sector's unrelenting drive forward but somehow the growth engines always fire up. "I will build a car for the great multitude [...], after the simplest designs that modern engineering can devise. But it will be so low in price that no man making a good salary will be unable to own one — and enjoy with his family the blessing of hours of pleasure in God's great open spaces." — Henry Ford, *My Life and Work*

OVERVIEW

Auto market – a live wire

 YANN LACROIX

The fits and starts in emerging economies in 2015 are leaving their mark on the automotive market. In contrast, the U.S. and Europe are picking up with stable growth and appear to have put the worst behind them. China is the biggest grey area in the worldwide automotive market amid concern over ever-slowing auto sales. Recession-ridden Brazil and Russia have seen registrations plummet. The European automotive market is finally showing signs of recovery after a number of difficult years. The U.S. market should stabilize once it climbs back to peak levels.

20 countries, 20 markets: switch on your GPS systems!

✓ Euler Hermes' projections for each market

1 > China. After enjoying a bullish period that saw it growing by 16% in 2013 and 10% in 2014, the market looks set to slow sharply to 3% in 2015 and 2016, falling to around 21 million units, leading to a risk of overcapacity and putting downward pressure on sale prices.

2 > United States. The market has enjoyed seven straight years of growth, climbing back to its pre-crisis peak. We see it growing by a further 4% in 2015 to 17.5 million vehicles before dipping by 1% in 2016 to a still very high level of 17.35 million.



3 > Japan. The Japanese market has been rocked by a series of tremors in past years in the wake of the financial crisis of 2008-2009, the 2011 tsunami and the knock-on effects of VAT hikes introduced in April 2014. We expect it to contract by 8% in 2015 before a 4% rebound in 2016 to 5.3 million units.

4 > Europe. The recovery in the automotive market is well underway with a 5% growth projection for 2015 and 4% for 2016, bringing the number of vehicles above the 14 million mark, albeit a good deal lower than the medium-term level (observed in the noughties, prior to the 2008-2009 crisis) of between 15.5 and 16 million units. Under such conditions, competition is intense and margins still low.

■ **Germany.** We see the market growing by 3% in 2015 and 1.5% in 2016 to close to 3.2 million units, moving nearer to the medium-term level of 3.3 million units.

■ **France.** The market is showing signs of picking up and sales should rise by 4% in 2015 and 2% in 2016 to 1.9 million vehicles, still almost 10% short of the long-term average.

■ **Italy.** The rapid upturn is simply the market playing catch-up – after plummeting from 2.5 million units in 2006 to 1.3/1.4 million in 2013 and 2014, the market should climb by as much as 13% in 2015, surpassing the 1.5 million mark, and 7% in 2016.

■ **Spain.** The market is still being buoyed to a large extent by scrappage incentives (EUR2,000), which, as seen in 2014, should fuel 18% growth in sales in 2015. However, with the scrappage program set to end in 2016, growth is likely to fall to a mere 3% in 2016, barely exceeding the one million unit mark, a far cry from the 1.6 million recorded in late 2007.

■ **United Kingdom.** The only European market to have bettered its all-time record with a fresh hike of 5% in 2015 coming on top of the 9% registered in 2014 and bringing the number of units

sold above 2.6 million, i.e. 200,000 above the average level. That said, we expect it to experience the beginnings of a slowdown in 2016 with a contraction of 4% to 2.5 million units, still above the medium-term level.

5 > New markets. A string of economic and political crises are dampening hopes of an automotive El Dorado in emerging markets. We see registrations falling by 14% in Brazil in 2015 to 2.3 million units, well below the 3 million observed in 2013, and by 36% in Russia to 1.6 million, almost half the level recorded just two years before. Indian sales should grow by 6% in 2015 but this will simply mark a return to 2011 levels. Carmakers are being drawn to new markets such as Saudi Arabia and Turkey, but past experience in Thailand, Argentina and Venezuela for instance serves as a painful reminder that economic and political risks can put a spanner in the works at any time.

Green, autonomous, shared: the car of tomorrow has yet to fully take shape

Ever more stringent environmental rules are spurring the development of “zero emissions” vehicles. Increasingly sophisticated driving technologies are paving the way for fully-autonomous cars. The industry also needs to find ways to respond to the emergence of new ways of using cars, e.g. car sharing.

Evolution or revolution? Three expert viewpoints to better grasp the pros and cons of these three major shifts in the car industry.

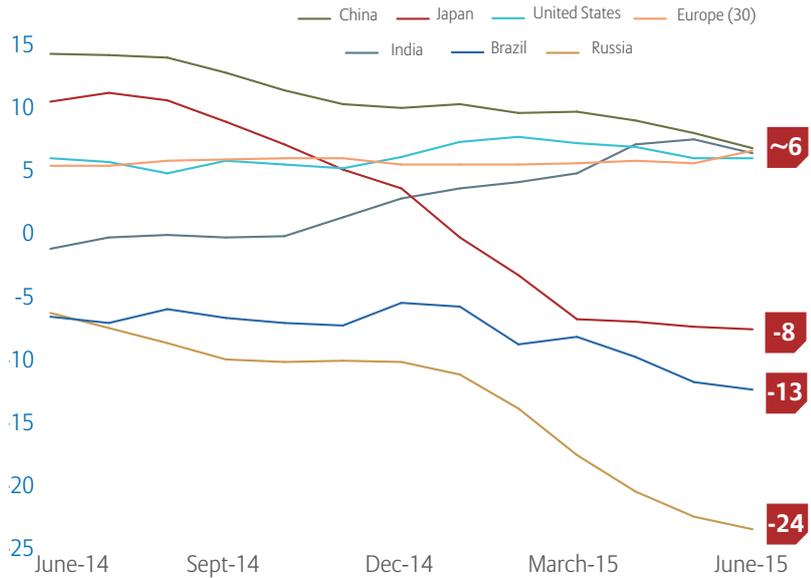
► Green car: another kick-start is needed.

Europe wants to have the leading edge by setting what are the lowest carbon emissions objectives of the developed world. However, sales of electric cars are stuck in first gear, accounting for less than 1% of worldwide market share in 2014. The cost of non-subsidized electric vehicles is still very high (a battery costs anywhere between 6,000 and 12,000 euros). Battery life is low (averaging around 150km) and infrastructure is sorely lacking (number of charging stations). Yet, as things stand, the electric car seems to be only “zero emissions” solution before hydrogen fuel cell cars can be mass produced. While the electric car is a real medium term solution, it is too costly for a volume-driven industry.

► Autonomous or “Google” car: not for today.

Fully-autonomous concept cars do of course exist, developed by either carmakers themselves or new technology specialists such as Google. However, the availability of a 100%-autonomous car on our roads currently seems like a far off prospect considering the high purchase price involved and the need to invest heavily in road infrastructure. Added to this, the entire fleet of existing vehicles on the road would need to be changed to ensure full interconnection between vehicles. Driving technologies will be gradually developed over the coming years, such as those that are beginning to feature in high-end vehicles. However, there is another essential issue that needs to be addressed: who would be responsible in the event of an accident? Would it be: (i) the driver, who is legally-bound to keep his/her hands on the wheel; (ii) the manufacturer of the autonomy module or the carmaker

Change in car registrations by country year on year, in %



Sources: OICA, Euler Hermes

that put the vehicle on the market; or (iii) the driver’s or the carmaker’s insurance firm? A plethora of technical, financial and legal questions that need to be answered before full application can be possible.

► Car sharing: the revolution is underway.

Shared use of a vehicle by several people reduces running costs (this “on demand” flexibility sets it apart from conventional car rental services), be it among individuals, through companies – primarily in large agglomerations, e.g. Autolib in Paris and Flinkster in Germany – or

via carmakers themselves. It is a solution for new generations amid increasing urbanization and the need to make budget choices in a world in which long-term growth in car sales is set to slow. That said, the fact remains that a new arrival in the family is one of the main reasons why people buy a car. In this sense, car sharing would be perceived more as a supplementary solution for occasional journeys rather than a profound shift.

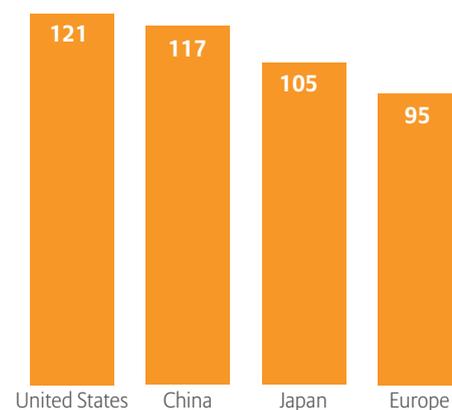
Auto-friendly countries need to overhaul their assembly lines

Global automotive production is set to slow to 2% in 2015 before recovering its 3%/4% annual growth potential in future years. However, demand is shifting and supply needs to be adapted to handle the volatility of certain markets. This leaves the automotive industry facing a number of challenges, requiring extensive investment:

► establishing a foothold in key growth markets, all the while adapting to what can sometimes be erratic shifts in demand;

► producing cars to suit the needs and desires of regional markets;

2020 per vehicle country CO2 emission targets in g/km



Sources: Cologne institut, VDA, Euler Hermes



►incorporating new technologies into vehicles, be they compulsory to comply with carbon emissions reductions or “zero emissions” demands, or part of a plan to continually break new boundaries in the field of vehicle safety until autonomous cars become a reality; and

►adapting to the new multi-ownership approach to cars.

There has been a steady transfer of production over to emerging countries that are perceived to be auto-friendly (i.e. attractive markets to establish assembly lines), as evidenced by the movements observed between 2007 and 2014.

The balance has tilted firmly in favor of emerging countries, with considerable growth in production in countries such as China (growth of 167%) and India (70%) and a marked decline in volumes leaving assembly lines in industrialized countries, with a 40% contraction in France and 46% in Italy. Amid shrinking European sales, car-makers have relocated production of their low-end models to countries with lower labor costs, e.g. Slovakia, Czech Republic and Poland, in a bid to sustain reasonable margins. Mexican car production has also soared as U.S. production has been moved to the country in the space of a few years; investment is massive and projects abound. Added to this, new production zones

are emerging in South East Asia and North Africa, while others (Russia, Brazil) are collapsing as their domestic markets nosedive.

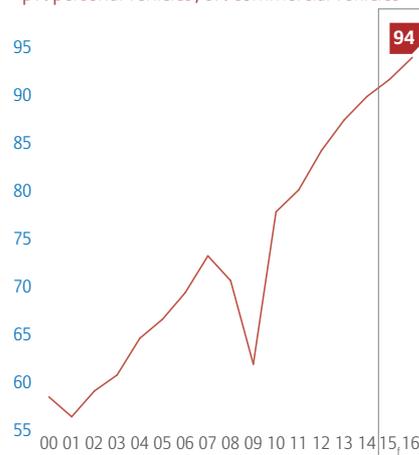
Assembly lines need to be adapted to meet the specific needs of each market: ranging from SUVs and 4x4s (big models) for the U.S. market to small low budget vehicles for Indian motorists, alongside mini and medium segments for Europe and international high-margin, high-technology luxury car families.

To meet the near, medium and long-term challenges facing it, the automotive industry invested some 100 billion euros in 2014, up by 18% on the 2012 figure. ROCE levels at each car-maker will now determine their capacity to keep track of or to pioneer the technological progress of tomorrow and to continue reducing carbon emissions, as required by the laws of each country. Never before has competition been as intense as premium brands race for profit and mainstream brands for volume. Beware those that fall by the wayside. ■

World vehicle production*

in millions of units

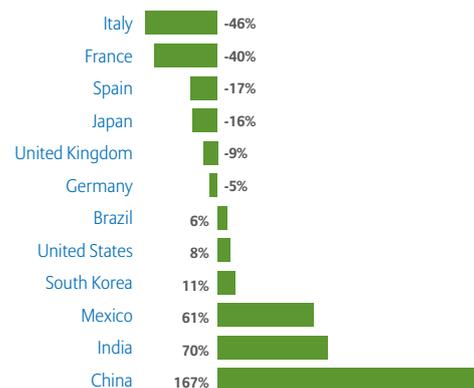
*pv: personal vehicles; cv: commercial vehicles



Sources: OICA, Euler Hermes forecasts

Change in vehicle production by country 2007-2014

in %



Sources: OICA, Euler Hermes

Automotive
risk map
2015

What are the potholes

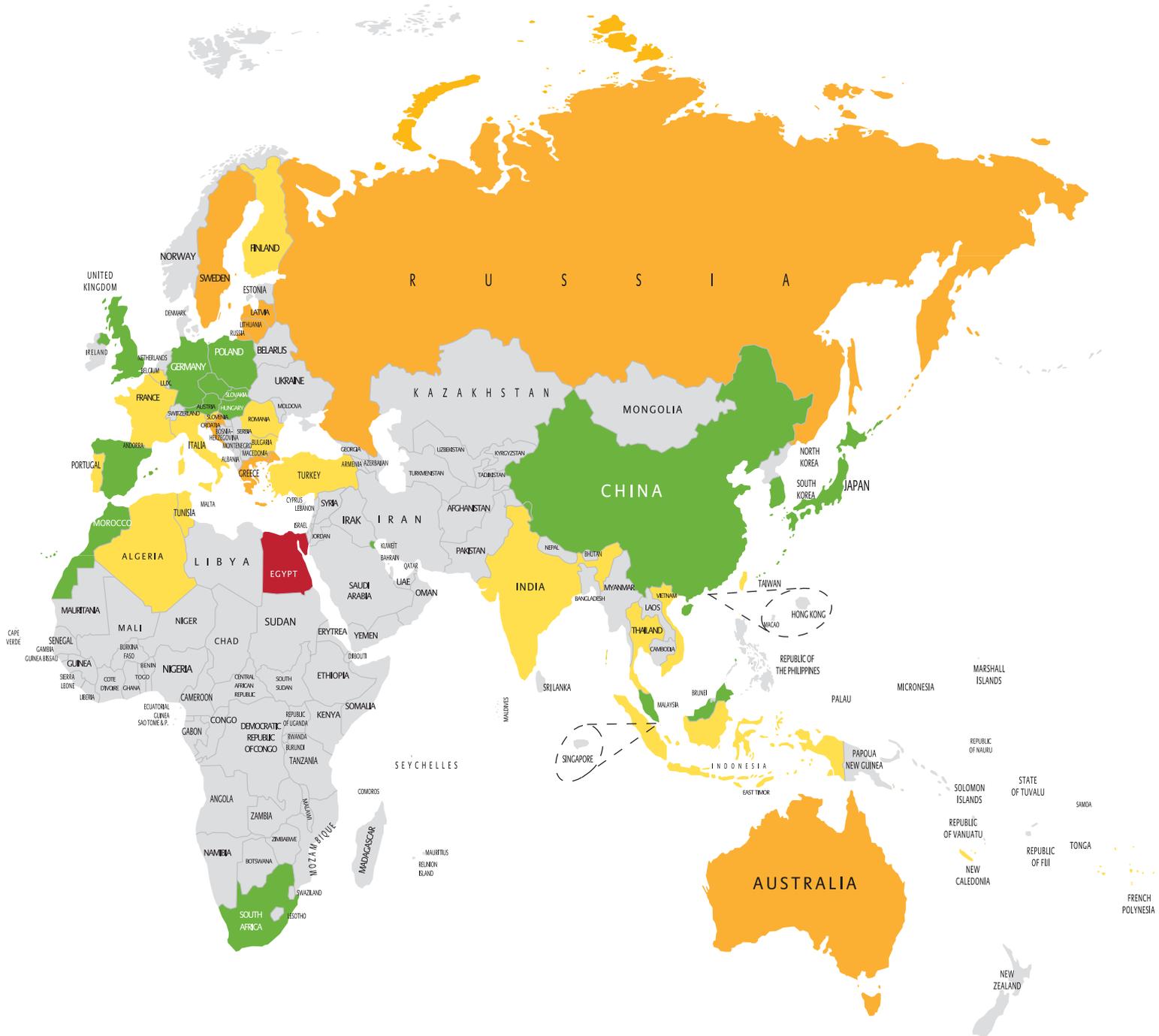
SECTOR RESEARCH TEAM



- Sound fundamentals; very favorable or fairly good outlook.
- Structural weaknesses; unfavorable or fairly bad outlook.
- Signs of weaknesses; possible slowdown.
- Imminent or recognised crisis.

Source Euler Hermes, as of June 26, 2015

for auto manufacturers in 2015?



CHINA

Overheating?

The world's largest market is poised for a very sharp slowdown to 3% in 2015 and 2016 after tripling in size between 2008 and 2014, going from 6.5 million to 20 million units, i.e. annual average growth of more than 30%.

Capital expenditure has soared and signs of overcapacity are beginning to emerge. Rocketing stock levels are pushing prices down (for instance, GM has had to cut its prices on 40 models ranging between USD1,613 and USD8,694 across its three main brands - Buick, Chevrolet and Cadillac). The Chinese market will need to evolve in order to cope with the emergence of a second-hand market and increasingly stringent environmental and traffic regulations. This means that new consumer populations will need to be tapped, with the production of more affordable vehicles that cater for motorists with less purchasing power than those living in coastal areas. The El Dorado for the car industry is experiencing its first slowdown. Some of the hardest hit are western brands, which, for the first time, have lost market share to domestic low budget SUV brands. Beyond volumes, auto makers will need to focus their efforts on profitability in the coming months, which can always be found in the form of joint ventures.

The revenge of the Chinese brands

After losing market share to western carmaker joint ventures, Chinese brands have strengthened their position in specific models, MPVs (multi-purpose vehicles, e.g. monospace) or

sales growth
+3%
in 2015 and 2016

SUVs (sport utility vehicles of the likes of crossovers or 4x4s), which they are selling at affordable prices, catching their western rivals off balance. This has enabled them to grow their market share by more than 10% to 42% in 2015. The new Chinese models on offer are better suited to the needs of Chinese motorists and this has forced western carmakers to rethink their products. Volkswagen, which has enjoyed a solid lead in this market until now and whose



Change in car registration, personal vehicles in China

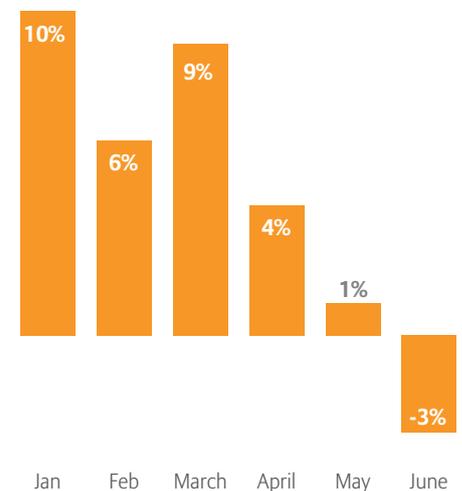
year on year, in million of units



Sources: CCAM, Euler Hermes forecasts

Monthly variation of automobile sales in China

first semester 2015 vs first semester 2014



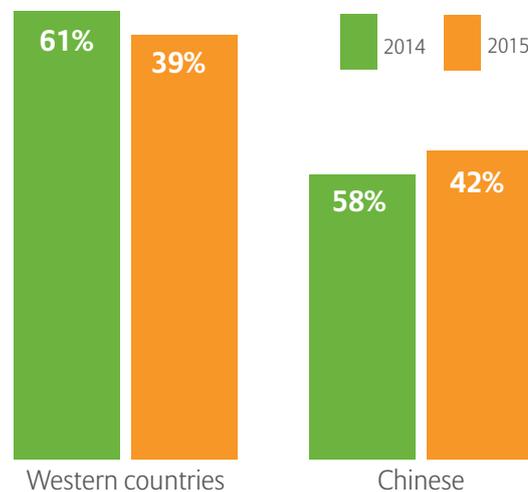
Sources: CCAM, Euler Hermes



Market share by origin of automakers in China

joint venture FAW VW suffered a 4% drop in sales in H1 2015, recently unveiled plans for a new low cost family of cars starting in 2018.

However, pollution in Chinese cities is a major threat going forward, with some large cities already introducing new registration and traffic restrictions. Families of low or zero-emission cars are struggling to carve out a market. Admittedly, the technology is highly sophisticated and cost intensive, but there certainly appears to be some genuine growth opportunities in saturated coastal cities. ■



Sources: CCAM, Euler Hermes

more than +10% for chinese carmakers

UNITED STATES

Full throttle for the 4x4 segment

in 2015
record sales level of
17.5 million
units

Change in activity and profitability

United States	2011	2012	2013	2014	2015e	2016p
Revenue Change (1)	8.3%	-0.3%	5.8%	-0.8%	3.0%	3.0%
Operating Profit Rate (2)	4.8%	-8.6%	3.5%	1.7%	2.5%	2.8%

Sources: companies, Ford and General Motors, consensus, Euler Hermes forecasts

(1) Change in revenue compared with the previous year

(2) Operating profit rate = profit from operations over revenue

them. However, with their gas-guzzling engines, they are hardly compatible with the ambitious U.S. carbon emissions reduction targets.

This is precisely one of the paradoxes in an American auto industry that is at the cutting edge of new technologies:

The U.S. market is on course to return to its record sales level of 17.5 million units, with growth of 4% in 2015

2015 marks its sixth straight year of growth amid resumed economic growth, lower interest rates, the lengthening of loan durations beyond six years and a price of oil at an all-time low. However, the market could plateau in 2016, dipping very slightly by 1%. There is also a risk of a rate hike and possibly the end of cheaper gasoline. These two external factors could weigh on the U.S. market.

Sales have gathered momentum, as has production, which has doubled since it bottomed out at 5.5 million units in 2009 to upwards of 11 million this year, bearing in mind that the workforce on assembly lines has increased by just 50% in the same space of time.

Coupled with the economic recovery, low oil prices have made for a substantial increase in LUV (light utility vehicle) sales (chiefly large pick-ups and SUVs). These vehicles are very lucrative for the three U.S. auto makers, which share over 55% of the market between

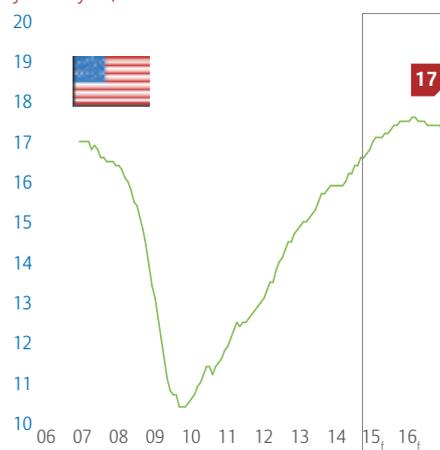
► in the electric car segment with Tesla, a start-up that rolled out its first model in 2008 and is projected to sell close to 55,000 units of its Model S throughout the globe. Tesla has developed a high-end, fully electricity-powered vehicle that can achieve speeds on a par with the most powerful sports cars and has a battery life of close to 400km. Prices start at EUR70,000 for this technological wonder, which has sent Tesla's share value to record highs of between 30 and 35 billion dollars (relatively close to GM's 50 billion and Ford's 55 billion);

► or in autonomous vehicles, with the work of auto makers themselves (Ford and General Motors) and very advanced studies carried out by Google and, soon, Apple also.

While very profitable in their domestic market, U.S. auto makers are publishing average consolidated earnings, under the weight of losses accumulated over a number of years in Europe (and exacerbated this year by the crisis with Russia, where production plun-

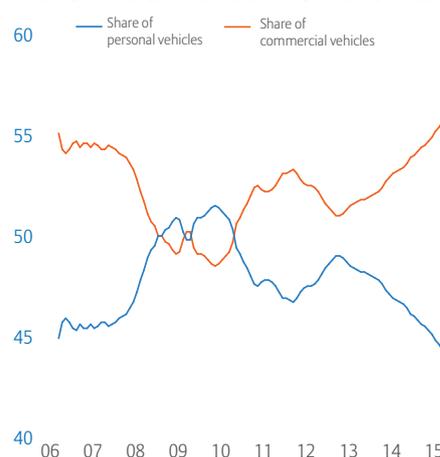
Change in car registration, personal vehicles in United States

year on year, in million of units



Sources: Auto Alliance, Euler Hermes forecasts

Sales distribution between personal and commercial vehicles in United States



Sources: Auto Alliances, Euler Hermes

ged by 27% in H1 2015) and more recently in South America (where production has fallen by close to 16%). However, like the rest of the western industry, U.S. auto makers do not consolidate operating profits generated on their joint ventures in China, which amounted nonetheless to several billion dollars in 2014. ■

JAPAN

On an **alternating** current

The Japanese market has been very volatile since 2008, with sales varying between 4 and 6 million units for the 2008-2015 period. It has been hit, in consecutive order, by the financial crisis of 2008-2009, the 2011 tsunami, the 2013 decision to do away with government incentives on the sale of low-fuel vehicles and the VAT hike from 5% to 8% in 2014. We see sales contracting by close to 8% for 2015 as a whole before edging back up by 4% in 2016. Even so, the long-term underlying trend in the Japanese market is bearish, with an aging population and traffic restrictions.

One of the characteristics that sets the Japanese market apart is that it is relatively closed off to foreign brands. Japanese brands horde close to 94% of the market. This quasi-monopoly ensures that Japanese carmakers can maximize their profits.

The financial performance of Japan's car-makers is on a par with those of premium brands, helped by a protected internal market, solid and profitable market shares in the Americas and an attractive positioning in China. Auto makers' considerable financial resources enable them to produce entire ranges suited to specific regional demands and invest in various "eco" technologies for the future. They are also helped by Japan's highly accommodative monetary policy, which has seen the yen fall by close to

between 4 and 6 millions million units for the 2008-2015 period

JPY/USD Exchange rate



Sources: Central Bank, Euler Hermes

Change in activity and profitability

Japan	2011	2012	2013	2014	2015e	2016p
Revenue Change (1)	5.7%	-2.6%	12.4%	19.6%	6.9%	4.0%
Operating Profit Rate (2)	4.0%	2.9%	5.4%	7.3%	7.6%	7.8%

Sources: companies, Toyota, Honda, Nissan, Mazda, Mitsubishi, consensus, Euler Hermes forecasts

(1) Change in revenue compared with the previous year

(2) Operating profit rate = profit from operations over revenue

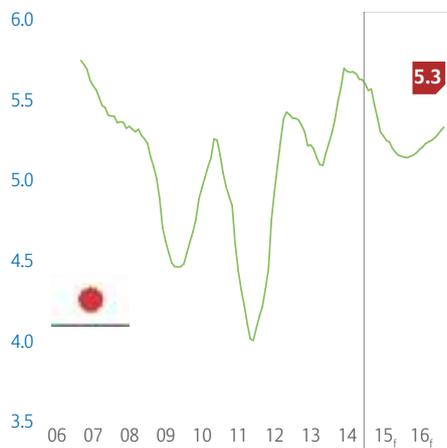
50% against the dollar, prompting carmakers to relocate some of their U.S.-bound production to Japan.

In their quest to become leaders in "green" technologies, and building on their extensive existing foothold in the hybrid segment (of which Toyota was a precursor), Japan's auto makers have developed rechargeable hybrid systems that are not only more power efficient but also ensure longer autonomy. They are also

present in the electric vehicle market, which is struggling to take off because of lengthy charging times (up to several hours) and limited autonomy (approx. 150km). They have just launched the first hydrogen fuel cell vehicles (the engine generates electricity using hydrogen, i.e. creating zero emissions, and it takes a matter of minutes to fill the tank). This is a very costly technology but nonetheless has the makings of a particularly effective solution for the future. ■

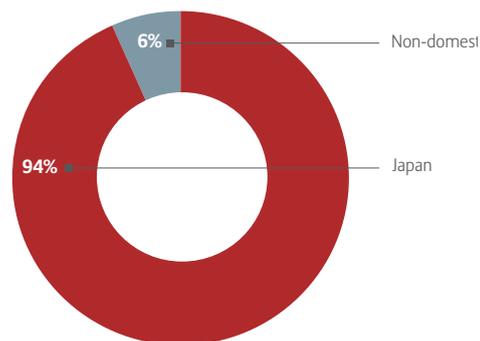
Change in car registration, personal vehicles in Japan

year on year, in million of units



Sources: Jama, Euler Hermes forecasts

Market share by origin of automakers in Japan



Sources: statistiques nationales, Euler Hermes

EUROPE

Gradually picking up speed

+ 6%
growth in 2015

Europe, the world's third-largest market, is still on the uptrend initiated in the summer of 2013 and should deliver growth of 6% this year and 4% in 2016

This will bring it above 14 million units, albeit still below the levels observed in the first half of the noughties (close to 16 million). Europe is still in overcapacity and a key market for all auto makers. It is one of the most competitive markets in the world in margin terms, but also a pilot market for carbon emissions reductions and a worldwide showcase for low-emission technologies. The UK is one of a handful of European markets to be surpassing its all-time highs. It is seen delivering a 5% jump in sales in 2015 to 2.6 million vehicles, whereas volumes in Italy and Spain are expected to be respectively 40% and 60% below levels recorded 10 years previously, even with this year's growth of 13% and 20% in the two markets. All markets have resumed growth, with the exception of Austria, down by 5% and the Netherlands, dropping 3%. One of the key factors to watch out for in 2016 will be the halt to the PIVE scrappage incentive plan in Spain. This EUR2,000 bonus has buoyed growth in the Spanish automotive market over the past two years. We are currently expecting Spanish sales to level out at 1 million vehicles, although we cannot overlook the risk of a fall-



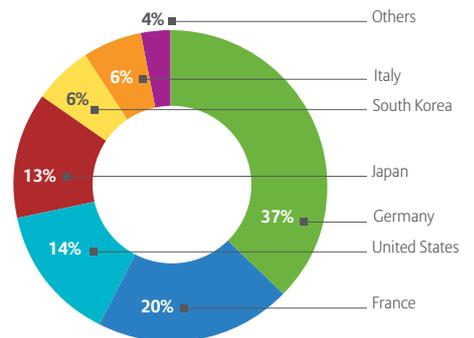
out from the removal of the scheme in the first few months of the year.

Carbon emissions per vehicle decreased by 19% in Europe between 2009 and 2014 but an even stricter target has been set for 2015-2020, i.e. a reduction of 27%, which would bring average emissions down from 123g/km in 2014 to just 95g/km!

Auto makers are pitting their technical prowess and inventiveness against each other via downsizing, i.e. decreasing vehicle weight (more plastic and less metal) and engine size (three-cylinder engines are making a comeback). They are continuing to develop hybrid, rechargeable hybrid and fully-electric engines, although battery weight will present a challenge (batteries can weigh several hundred kilos). Auto makers are also working on ways to optimize diesel technology, bearing in mind that diesel engines generally consume 10/15% less fuel than petrol en-

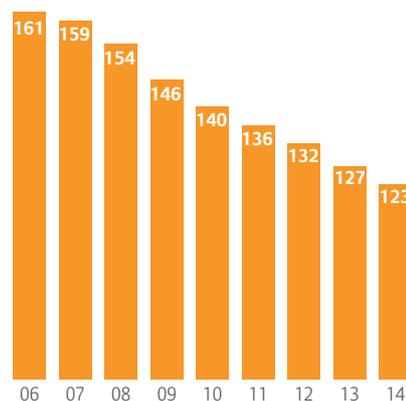
gines. The latest generation of diesel technology is compatible with increasingly-stringent anti-pollution standards (notably the latest standard set to come into force on 1 September 2015). ■

Market share by origin of automakers in Europe



Sources: European auto manufacturers association, Euler Hermes

Change in average carbon emissions per vehicle in Europe in g/km



Source: European Environment Agency

Change in car registration, personal vehicles in Europe

year on year, in million of units



Sources: European auto manufacturers association, Euler Hermes forecasts

France: Plug it in!

112 g/km
average carbon emissions in France

The French market is continuing to pick up gradually. We see it growing by 4% in 2015 and 2% in 2016

This will bring the number of units sold up to 1.9 million, still a relatively modest figure and below the market’s medium-term level of 2.1 million. The French market is also characterized by a predominance of budget cars rather than high-end and luxury car families, which gives French auto makers little room to grow their margins but makes France one of the countries with the lowest average carbon emissions levels, i.e. 112g/km versus a European average of 121g/km (based on data gathered for the first few months of 2015).

Electric vehicles are present in all of the families of cars marketed by France’s carmakers

However, while sales volumes are rising, electric cars have so far captured a meagre share of the market, i.e. just 0.7% for the first five months of 2015 (5,670 vehicles sold). This is in spite of incentives of up to 10,000 euros per car! While a presence in the electric car market is necessary, paltry sales levels make for slim margin pickings in proportion to the considerable investment required.

French passenger car production looks set to remain low

We have an estimate of 1.35 million for 2015, implying growth of 4/5% versus upwards of 3 million ten years ago. While “competitiveness agreements” have helped stem the decline and

the upturn in the European market should inject a little more momentum into volumes, it would be foolhardy to expect sales to return to past levels.

A new player has emerged in the electrical mobility segment

Bolloré established its “clean” Autolib car-sharing scheme first in Paris before expanding it to Lyon, Bordeaux and, more recently, Arcachon. It is now looking to sell the concept in other countries, recently signing a deal with the U.S. city of Indianapolis. ■

ZOOM

Germany’s carmakers boast operating margins of close to 7% whereas their French counterparts are nearer to 3%. There are a number of reasons for this difference:

Difference in margin at French and German carmakers

- 1 > **Price.** The Germans are helped by their quality brand image.
- 2 > **International market.** German carmakers have long built on their brand image to establish themselves in key international markets.
- 3 > **Investment.** Robust margins give German carmakers leeway to step up investment in product families, technological innovation and assembly lines. ■

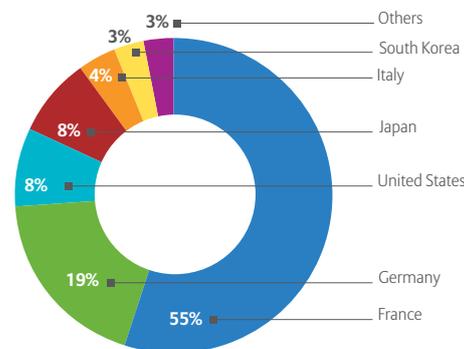
Change in car registration, personal vehicles in France

year on year, in million of units



Sources: CCFA, Euler Hermes forecasts

Market share by origin of automakers in France



Sources: CCFA, Euler Hermes
France: PSA, Renault groups; Germany: VW, BMW, Mercedes groups; U.S.: GM, Ford groups; Japan: Nissan, Toyota groups; South Korea: Hyundai, Kia groups

Change in activity and profitability

France	2011	2012	2013	2014	2015e	2016f
Revenue Change (1)	6.4%	-4.4%	-2.8	0.7%	3.5%	4.0%
Operating Profit Rate (2)	1.9%	-4.7%	-1.7%	1.4%	2.9%	3.2%

Germany	2011	2012	2013	2014	2015e	2016f
Revenue Change (1)	17.4%	14.7%	1.9%	5.5%	4.3%	4.0%
Operating Profit Rate (2)	8.3%	7.2%	7.0%	7.6%	7.8%	8.0%

Sources: PSA, Renault, Volkswagen, Daimler and BMW, consensus, Euler Hermes forecasts
(1) Change in revenue compared with the previous year (2) Operating profit rate = profit from operations over revenue

Germany: Will we be seeing large sedans in car-sharing schemes?

130 g/km
average carbon emissions in Germany

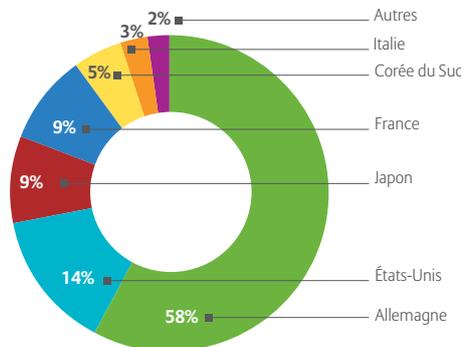
The German market is gradually returning to its average sales levels with 3.1 million units sold (rising by 3% in 2015 and by 2% in 2016). It has a heavier tilt towards more high-end models, which, while beneficial for carmakers' margins, also implies more polluting engines with average emissions per car of more than 130g/km compared to a European average of 121g/km. In response to this, the German automotive industry is ploughing massive investment into hybrid and electric technologies, on which it is sure to maximize returns, in a bid to bring emissions levels down closer to the European objective of 95g/km by 2020.

German production is still high at close to 5.7 million units, of which roughly 80% catering for the export market. One of the stand-out aspects of H1 2015 saw Volkswagen unseat Toyota from the world number one position with the sale of 5.04 million units. Coinciding with this, Mercedes reported a 10% operating margin, topping its own guidance. The German auto industry is continuing to outperform, both in terms of volumes and margins, but this necessitates massive investment. One of the most recent illustrations is the planned takeover by Audi, BMW and Mercedes of Nokia's Here digital mapping service for

several billion euros. This is just one example of the power and determination of the players in an industry to forge alliances to further enhance their collective clout and independence.

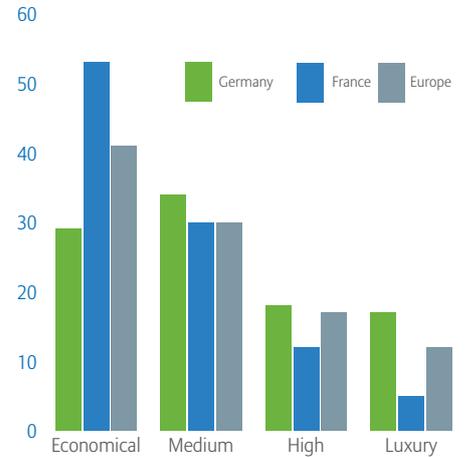
In the land of the high-end car, Germany has developed an extensive car-sharing network in 490 towns and cities in partnership with a number of players. Leader Flinkster (Deutsche Bahn's car-sharing service with 3,600 vehicles) is followed by Car2Go (with a fleet of 3,500 vehicles) and DriveNow (2,360), which operate alongside Daimler and BMW's own car-sharing services. Over a million Germans are signed up to a car-sharing service versus 200,000 in 2010.

Market share by origin of automakers in Germany in 2013



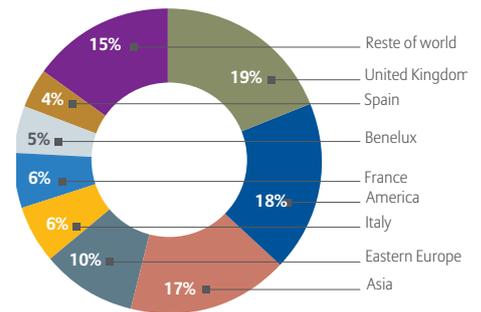
Sources: VDA, Euler Hermes
Germany: VW, BMW, Mercedes groups; U.S.: GM, Ford groups; Japan: Nissan, Toyota, Honda, Mazda, Suzuki, Subaru groups; South Korea: Hyundai, Kia groups; Italy: Fiat group

Sales distribution by vehicle category in Germany, France and Europe 2013 data in %



Sources: VDA, Euler Hermes

Exports destination 2013 in Germany



Sources: VDA, Euler Hermes

Change in car registration, personal vehicles in Germany

year on year, in million of units



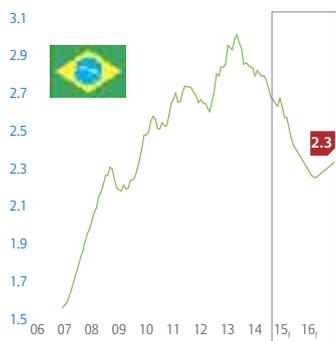
Sources: VDA, Euler Hermes forecasts

NEW MARKETS

A TWO-WAY STREET



Change in car registration, personal vehicles in Brazil
year on year, in million of units



Sources: ANFAVEA, Euler Hermes forecasts

Change in car registration, personal vehicles in Russia
year on year, in million of units



Sources: OAR, Euler Hermes forecasts

■ **Brazil and Russia shift into reverse**

Deemed promising markets not that long ago and tipped to take over the top spots on their respective continents, Brazil and Russia are facing steep declines in 2015 with falls of 14% and 32% in registrations to 2.3 million and 1.7 million respectively, a far cry from the 3 million achieved three short years earlier. On top of these poor sales figures, the entire local automotive industry is suffering in both of these countries, as evidenced by redundancy plans and site closures. The Brazilian market should recover some sta-

Registrations in 2015

Brazil	Russia	India	Turkey
-14%	-32%	+6%	+24%

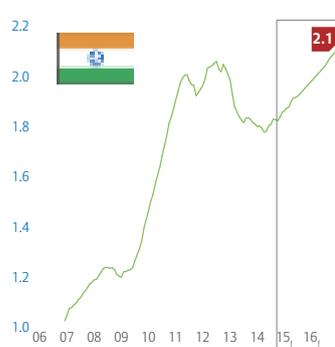
bility in 2016 and Russia is expected to pick up by 10%, but volumes will remain low. This has prompted General Motors to close practically all of its Russian assembly lines, notably those located in Kaliningrad, Nijni Novgorod and Saint Petersburg. The unfortunate fact is that, while these markets harbor very interesting medium-term prospects, their inherent volatility complicates industrial strategies and can result in heavy losses at certain points in time.

■ **India and Turkey are speeding up**

After two tough years, India is on a definite path to recovery with growth that we expect to come to 6% in 2015 and 7% in 2016. However, volumes are still quite low at 2 million units (a tenth of Chinese volumes) and margins rather narrow, with a predominance of small low cost cars.

Turkey is still a fledging car market and is set to grow by an impressive 24% this year and 15% next year. However, even with this surge forward, volumes will come to a mere 0.84 million in a country with a population of close to 80 million. As a gateway to Europe, Turkey also houses assembly lines for Renault, Toyota, Ford and Hyundai- Kia. It currently exports close to 80% of the vehicles produced at these plants, primarily to European markets. ■

Change in car registration personal vehicles in India
year on year, in million of units



Sources: SIAM, Euler Hermes forecasts

Change in car registration, personal vehicles in Turkey
year on year, in million of units



Sources: OSD, Euler Hermes forecasts

1.4 million
number of vehicles in
2016 in Iran



WHERE ARE THE AUTOMOTIVE MARKETS OF TOMORROW?

Change in car registration*,
personal vehicles in Indonesia
year on year, in million of units



*annual data
Sources: Gainkindo, Euler Hermes forecasts

Indonesia will get a second wind

2014 did not see any growth in car registrations and the decision early this year to scrap fuel subsidies is putting a strain on consumer purchasing power and car sales in the country. However, the increase in prices should be gradually absorbed. Sales are also expected to pick up at year-end, which should enable the market to end 2015 up by 6%. This growth will also be fuelled by sales of low cost environmentally-friendly cars, which are becoming increasingly popular among Indonesian motorists. The all-important one million sales mark should be hit in 2016 with an 8% growth rate. ■

Change in car registration,
personal vehicles in Thailand
year on year, in million of units

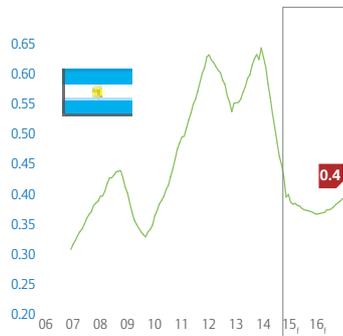


Sources: TAIA, Euler Hermes forecasts

Thailand continues to stall

The steep drop in registrations observed in 2014 (34% fall) has spilled over into 2015 with an anticipated decrease of 17%. This comes against the backdrop of a generally sluggish Thai economy and is not helped by the decision to end government subsidies for first-time car buyers. However, an increase in subsidies for environmentally-friendly cars will give the market a considerable boost. We expect growth to rebound to 13% in 2016 to 400,000 vehicles, although this will still be well short of the 700,000+ peak of mid-2013. ■

Change in car registration,
personal vehicles in Argentina
year on year, in million of units

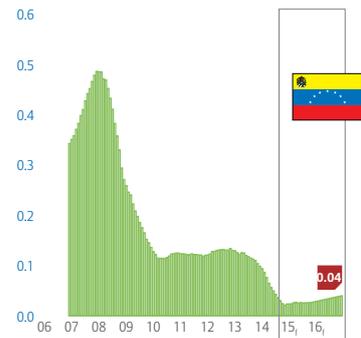


Sources: Adefa, Euler Hermes forecasts

Argentina is struggling to get going again

The downward spiral that began in 2014 (38% fall over the whole year) continued into 2015 with an estimated 8% drop in registrations to 390,000. The market shows no signs of picking up before the middle of 2016 at best. The anticipated recession in Brazil – the biggest market for Argentine exports – is coming on top of already-sluggish domestic demand. The planned halt this year to the ProCreAuto plan (loan assistance), introduced to curb the effects of the economic collapse in 2014, will put an added strain on demand. ■

Change in car registration,
personal vehicles in Venezuela
year on year, in million of units

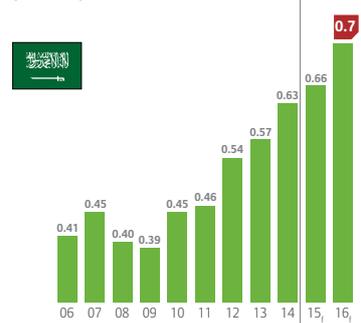


Sources: OICA, Euler Hermes forecasts

Venezuela is still out of gas

The slight uptick registered in Q2 2015 (year-on-year growth of 9%) is minor in relation to the steep dive observed since the market peaked in 2007, with sales now ten times lower. We are looking for growth of 4% for the whole of 2015 and a further 3% in 2016, barely bringing the number of units to 40,000. ■

Change in car registration*,
personal vehicles in Saudi Arabia
year on year, in million of units



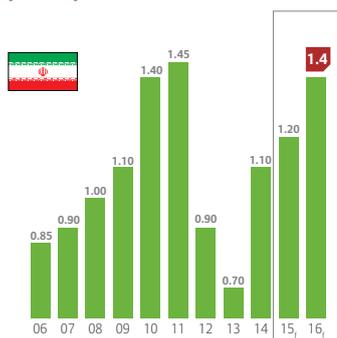
*annual data
Sources: OICA, Euler Hermes forecasts



■ **Saudi Arabia is keeping up momentum**

Although growth in registrations is expected to slow in 2015 (to 5% from 11% in 2014), fitting in with the general economic context, Saudi Arabia is still a very attractive market for foreign businesses, notably Asian carmakers, which account for the lion's share of the market: 35% for Toyota and 17.5% for Hyundai. It should resume more vigorous growth in 2016 (11%) and exceed sales of 700,000 units. ■

Change in car registration*, personal vehicles in Iran
year on year, in million of units



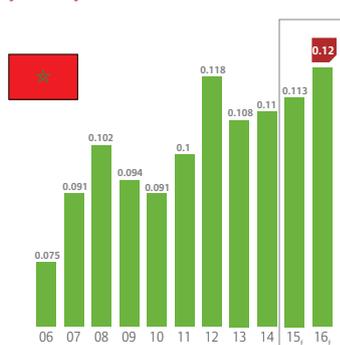
*annual data
Sources: OICA, Euler Hermes forecasts

■ **Iran wants to recapture past growth**

Registrations nosedived in 2012 with the introduction of international economic sanctions but surged back up in 2014 to 1.10 million vehicles. Iran is still the region's largest car market ahead of Saudi Arabia and Turkey, now that Chinese and local carmakers have overtaken the previous European leaders. That said, the Europeans are

now lining up to recapture a significant share of the Iranian market ahead of the planned lifting of sanctions at the end of the year. Growth is set to continue in 2015 (9%) and pick up pace in 2016 (to 17%), bringing the number of vehicles to 1.4 million, on a par with the all-time high of 2011 (1.45 million). ■

Change in car registration*, personal vehicles in Morocco
year on year, in million of units



*annual data
Sources: OICA, Euler Hermes forecasts

■ **Morocco in the starting grid**

Morocco and South Africa are the only African countries with an automotive industry worthy of the name. The Moroccan market is currently being driven by the recovery in the international market and substantial government measures to promote foreign investment. Renault and Ford announced plans in May to open new production plants in the country. The upswing in demand that started last year (up by 2%) will

continue in 2015 (3%), but without returning to the peak levels of 2012. The market will have to wait until 2016 to exceed this peak with 120,000 registrations fueled by growth of 6%. ■

Change in car registration*, personal vehicles in Nigeria
year on year, in million of units



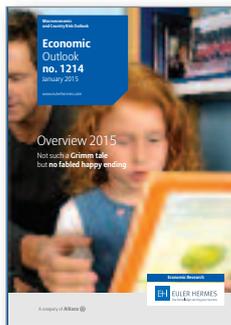
*annual data
Sources: OICA, Euler Hermes forecasts

■ **Nigeria: maybe for tomorrow?**

After stagnating in 2013, the Nigerian auto market returned to growth in 2014 (rising by 5%). Growth will continue along these lines in 2015 before speeding up to 10% in 2016, i.e. 48,500 vehicles. This is extremely low nonetheless, especially considering the immense potential harbored by a country with a population of almost 180 million. The market is still being hampered by: i) the strength of non-official channels; ii) a crying lack of infrastructure; and iii) plans to end fuel subsidies, which will put a dent in household purchasing power. ■

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