

Production Outlook and Economic Forecast

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14 February 2013

- During presentations (10:30 – 11:00) everyone will be muted so that only the presenters will be heard.
- The presentation will be followed by a Q&A session. Click on the hand symbol to show that you have a question.
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It's recovery, but not as expected and incomplete:

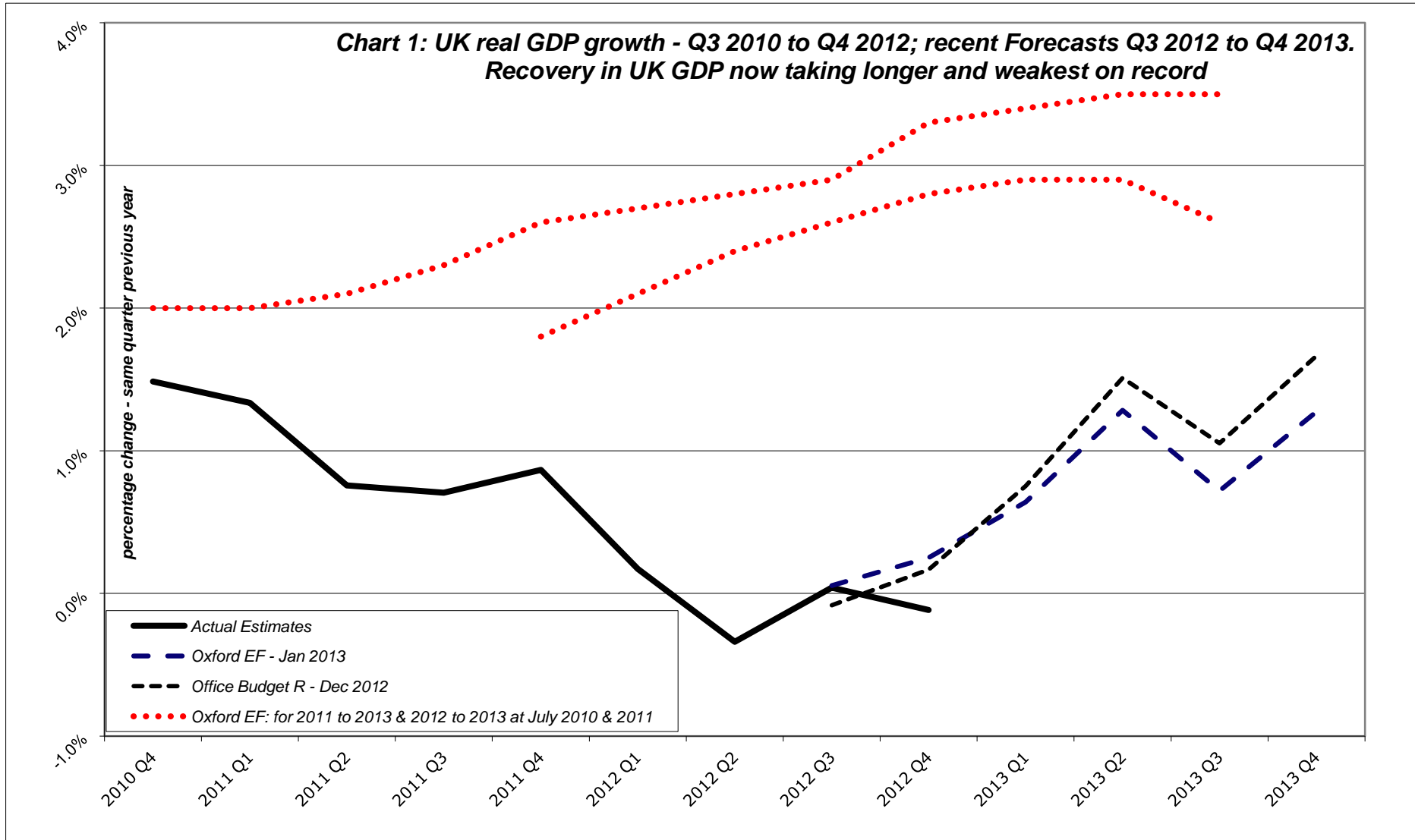
...UK still searching for a sustainable recovery by 2013

- Growth has slumped, remains weak, is disjointed and slow
- Inflation rate eased, but remains sticky, volatile and untamed
 - Financial and restructuring strains constrict confidence
 - Car markets stable in total variegated in the mix

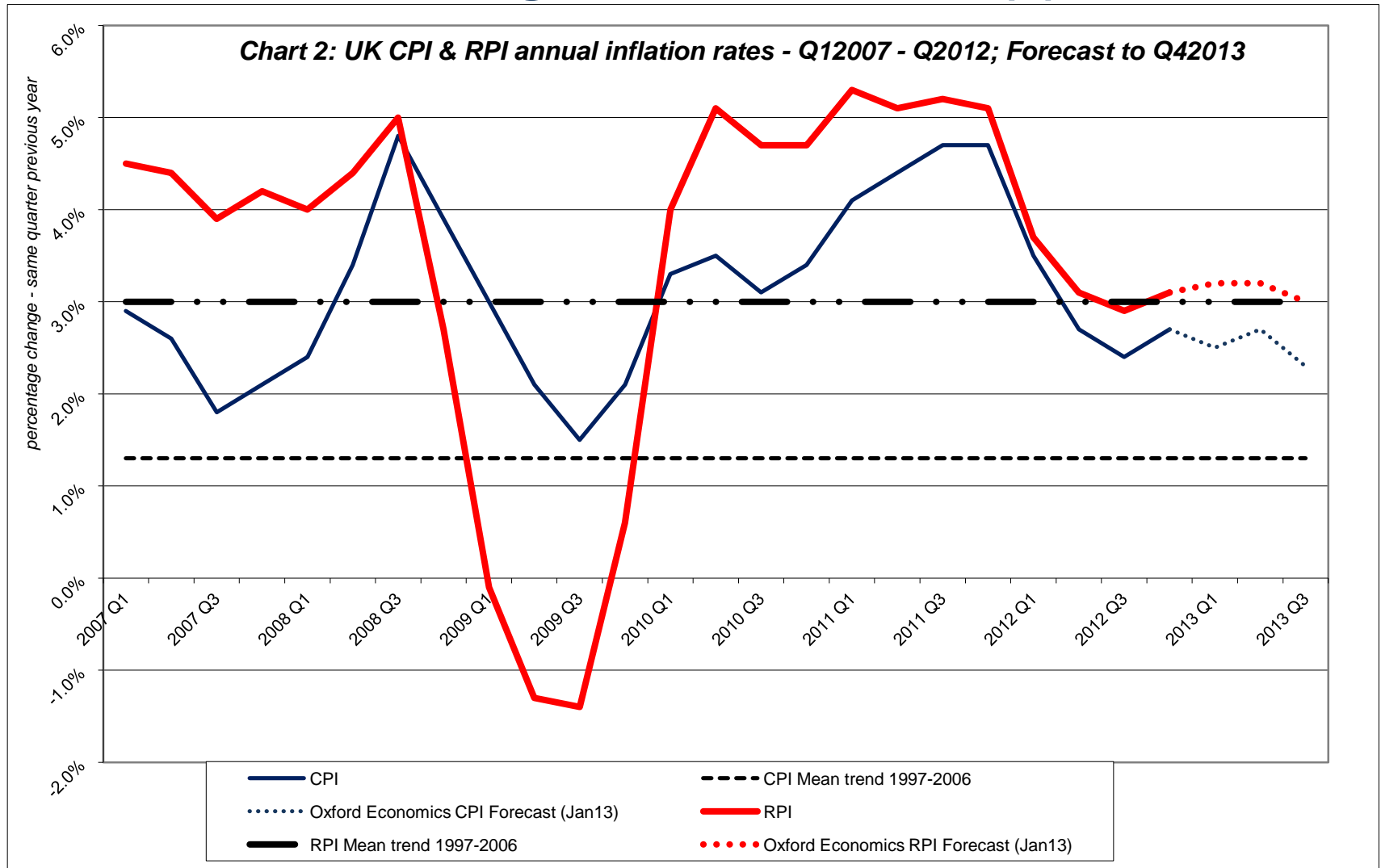
UK macroeconomic agenda for 2013:

- Domestic economic growth may reignite slowly;
 - Risks of UK fiscal stance; EZ crisis and FX volatility
-
- Continued slow growth in consumer spending
 - Sticky but lower inflation and resilient employment
 - Financial and investment confidence still fickle & unsure
 - FLS may be successful in easing credit flow and terms

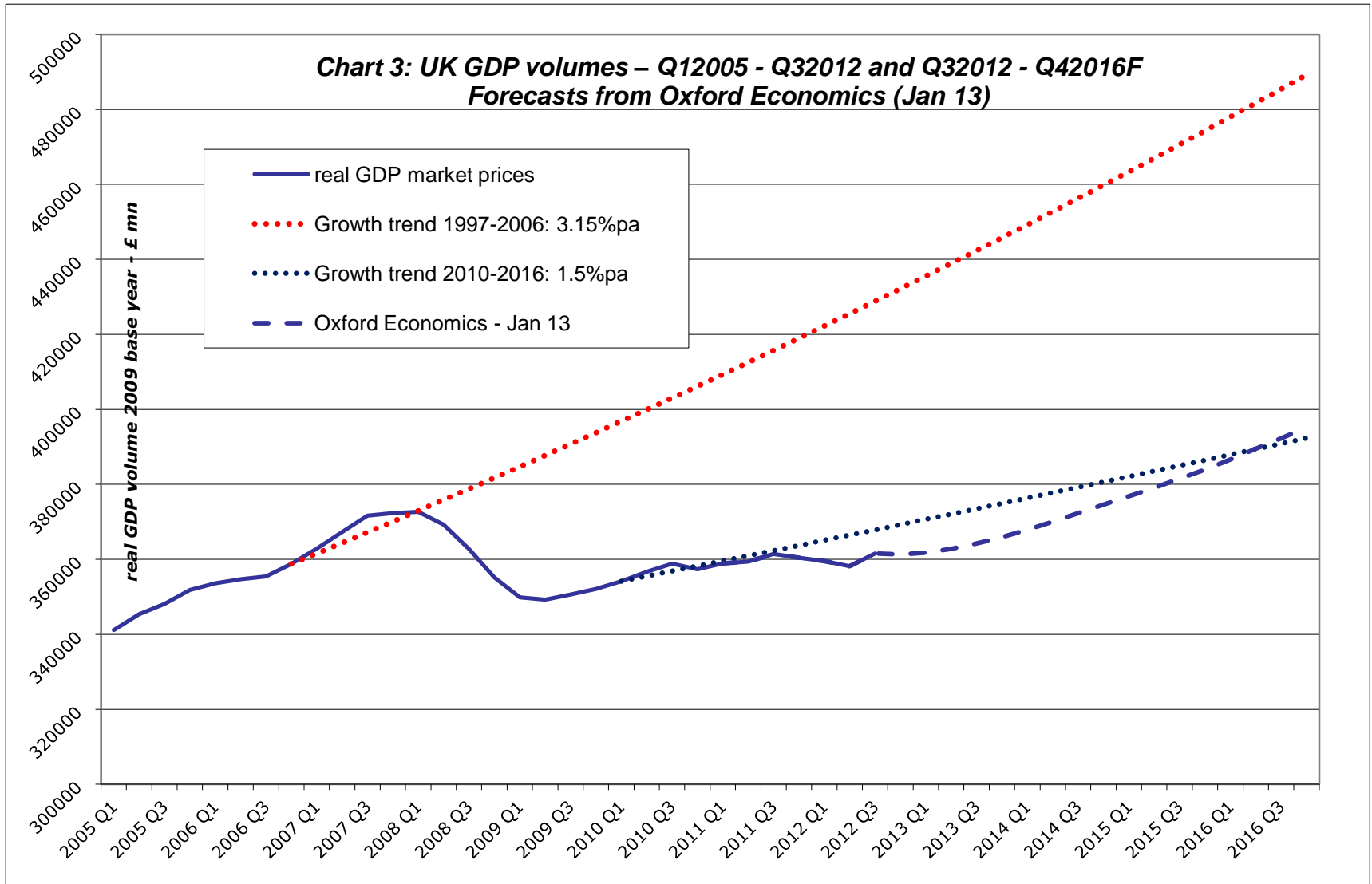
Growth sags and recovery phase drags (1)



Growth sags as inflation bites(2)

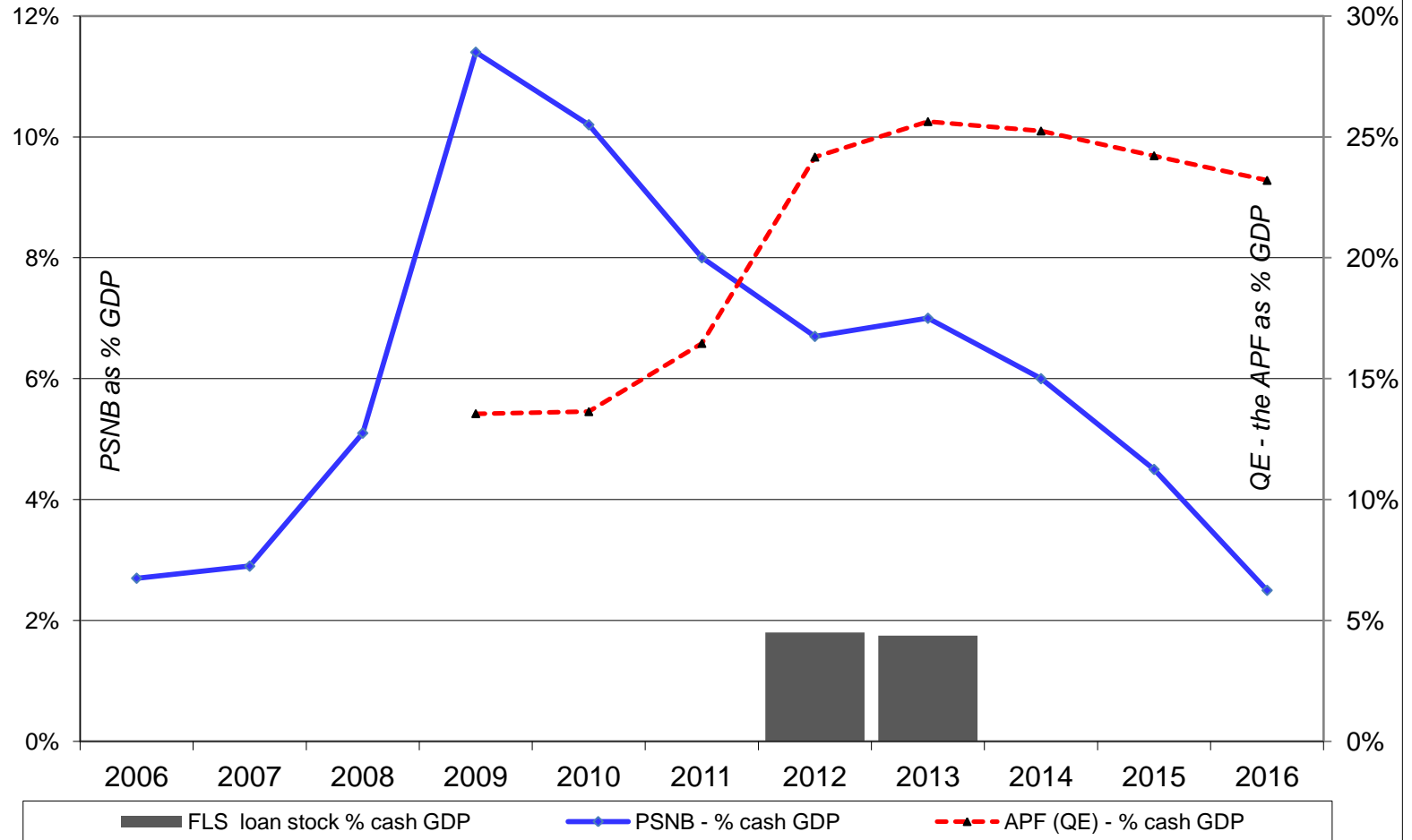


Long recovery path – major economic changes



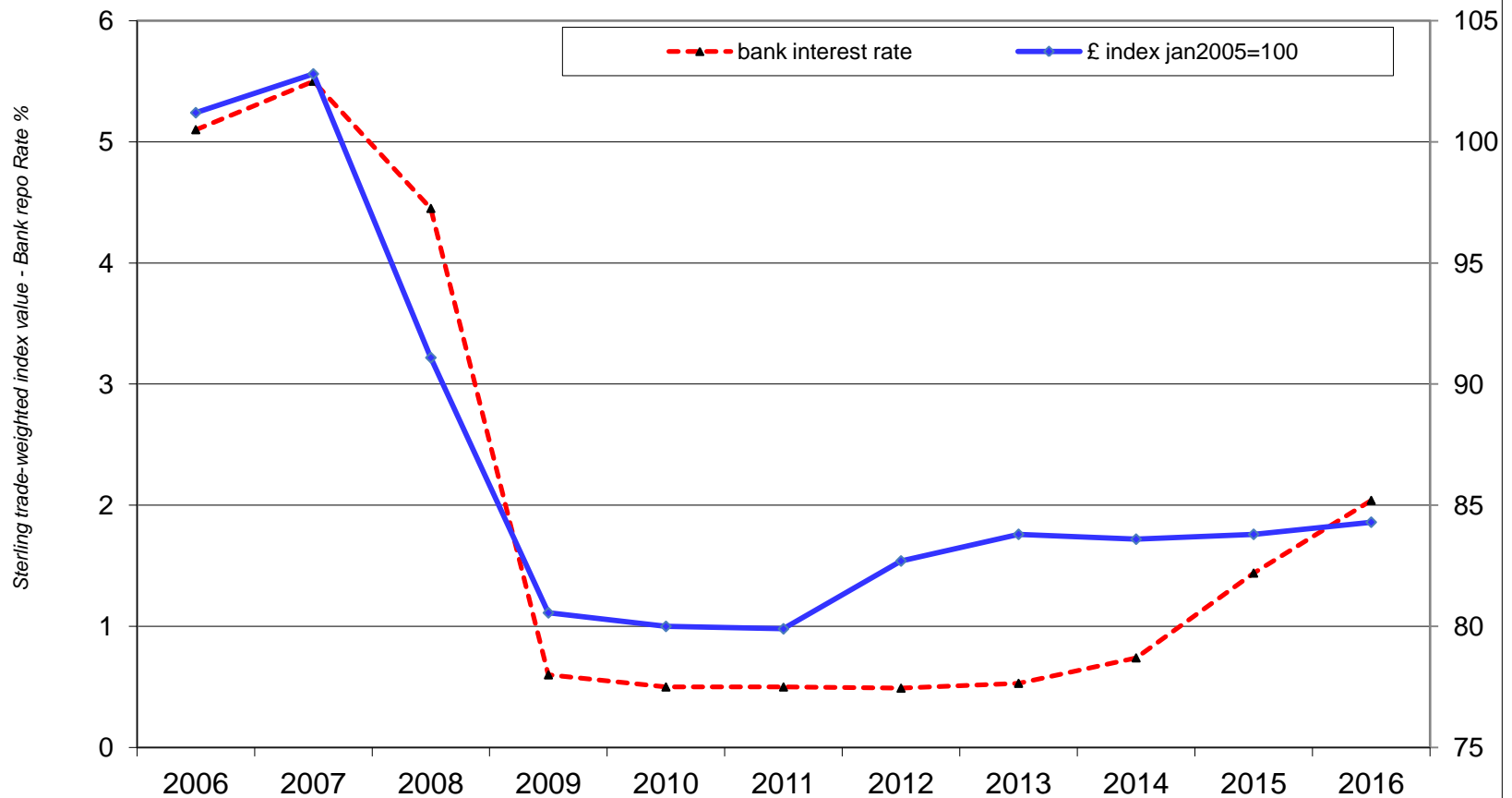
On Exceptional Economic Policies (1)

Chart 4: QE - the APF as % of GDP; Public Sector Net Borrowing as % of GDP and FLS loan stock.
 Source average of medium term forecasts from HMT Survey November 2012



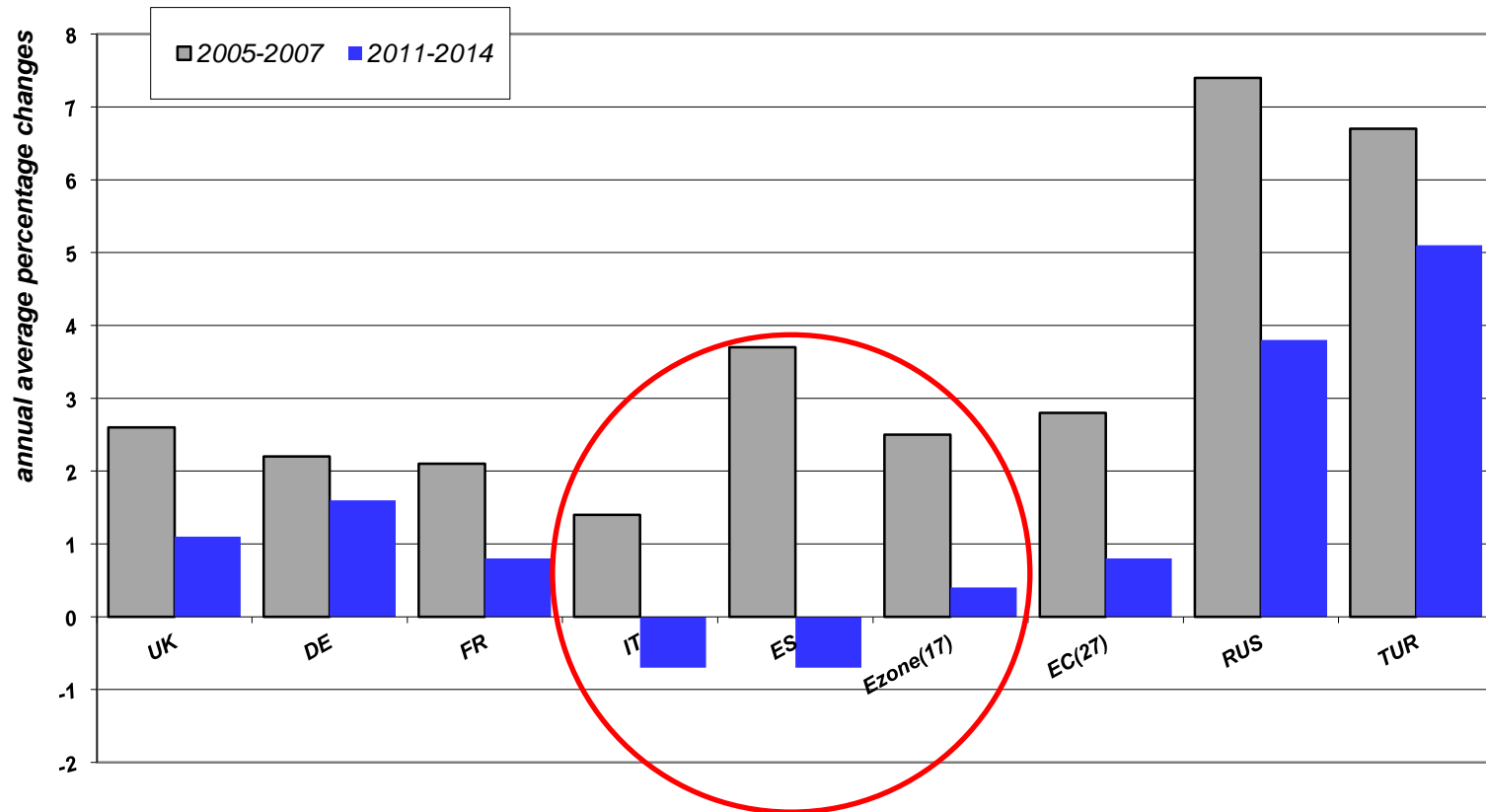
On Exceptional Economic Policies and Sterling (2)

Chart 5: Average of Medium Term UK Forecasts for Bank rate and £ - at Nov 2012 from HMT's survey of independent forecasters



EZ in remission; growth opportunities near-by

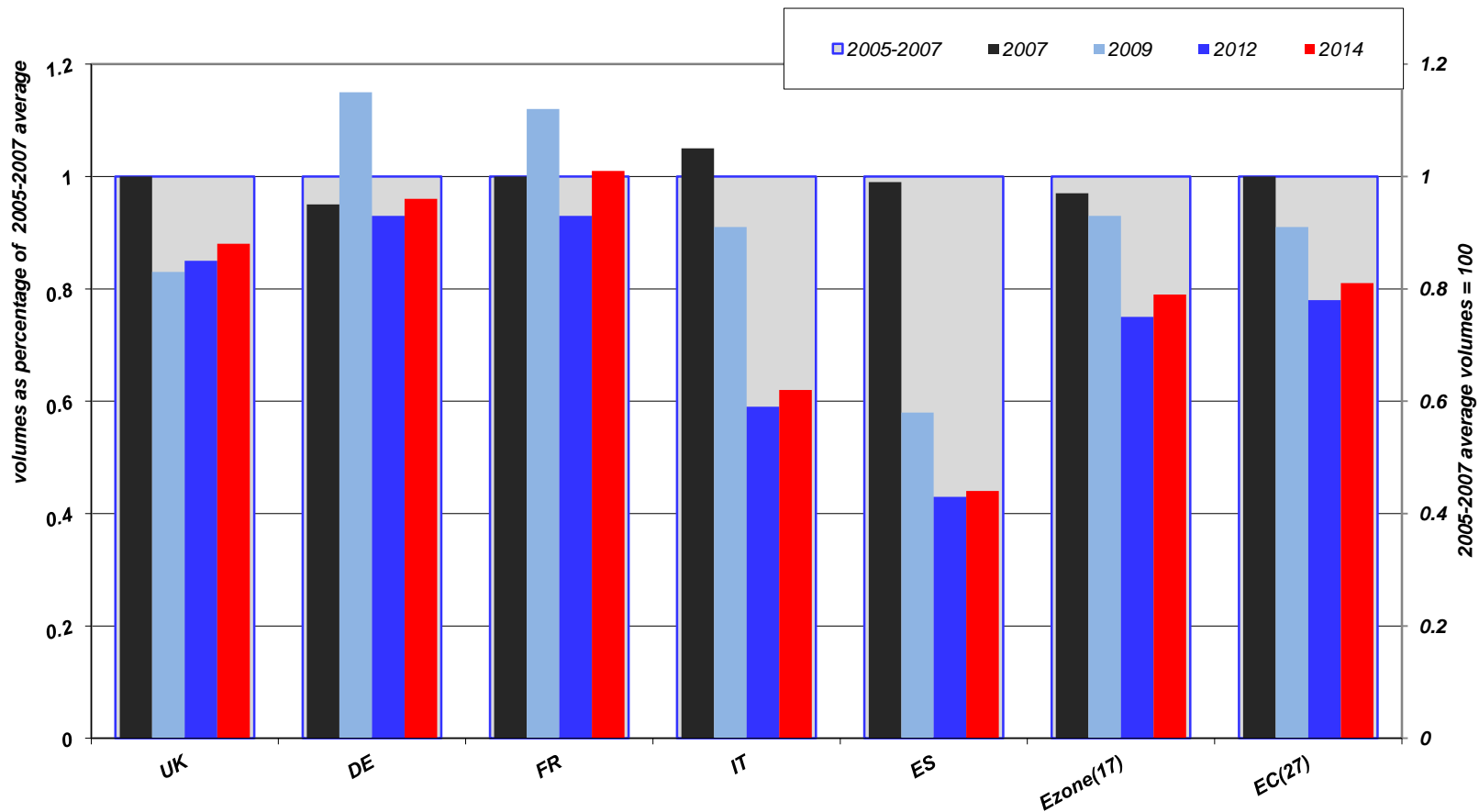
Chart 6: Europe's GDP growth trends 2005-2007 and possible prospects 2011-2014



Source: OECD Q4 2012

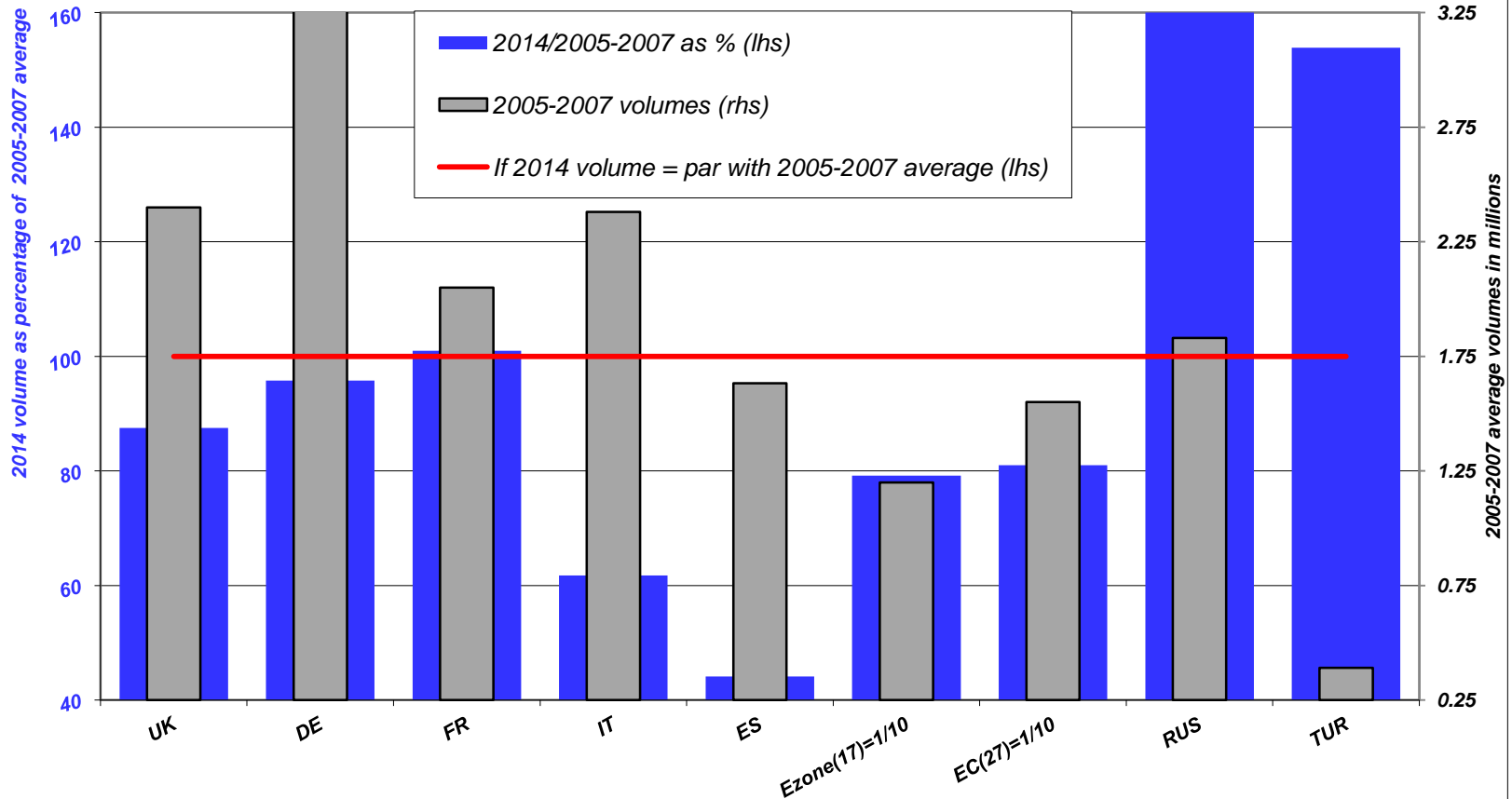
UK new car volumes in Europe – stable; below par

Chart 7: Europe's car sales volumes 2005-2007; 2007, 2009, 2012; prospects by 2014



UK new car volumes in Europe – stable; below par

Chart 8: Europe's car volumes at 2005-2007 and growth prospects by 2014

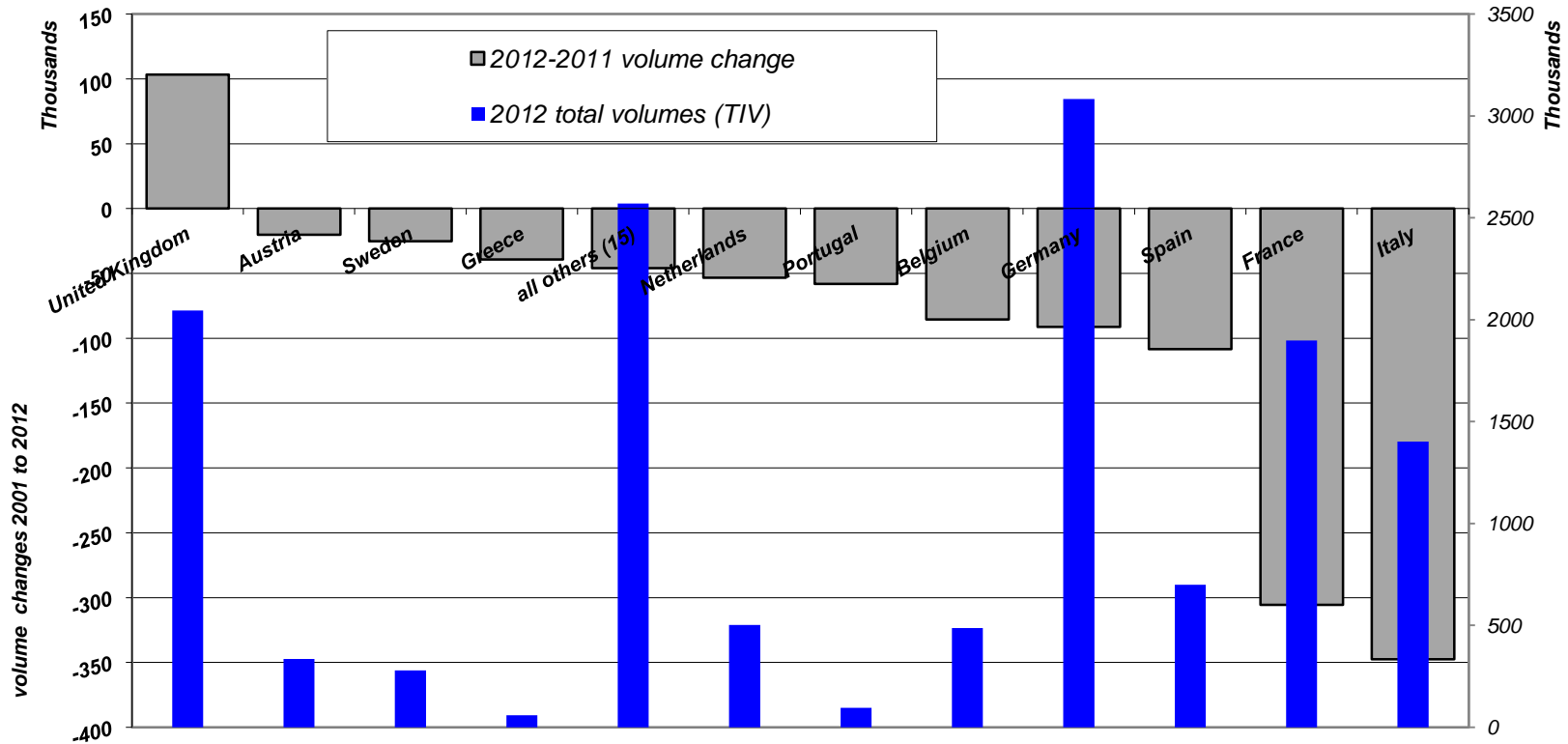


UK's unique revival in private car demand?

- A timely (low) point on recovery's route for many habitual new car buyer types and confidence raised
- Postponed buying meant heightened needs to buy new
- Ability to buy as jobs stable, cash & collateral rich; PPI miss-selling payments windfalls (£9.5bn); housing in doldrums
- Willing to replace from earlier buying vintages
- OEMs ready to respond – dire EZ! £/€ attractive Packaged marketing & asset-backed car finance must have helped too

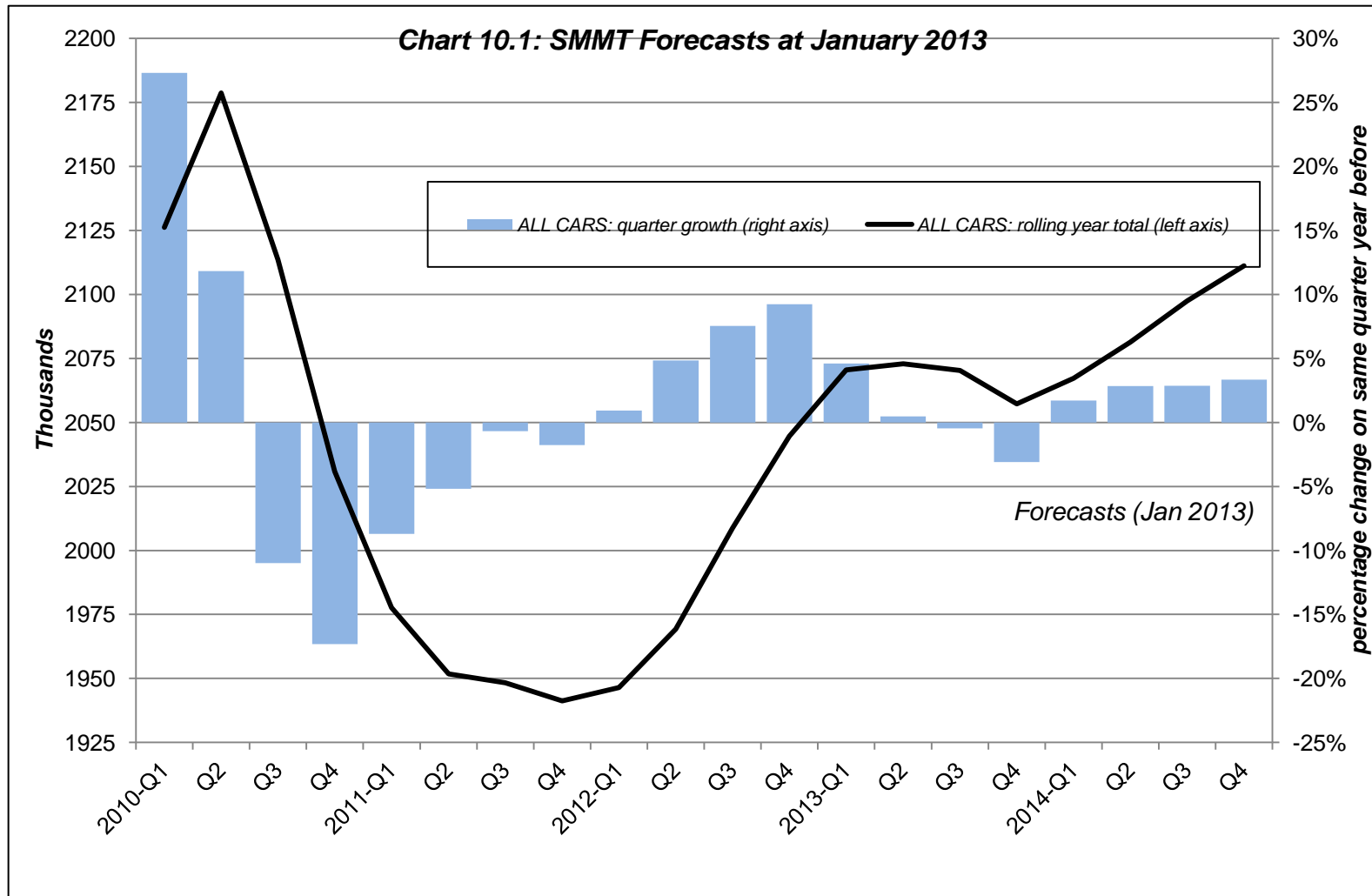
UK new car volumes in Europe – 1 of 8 states to grow in 2012

Chart 9: EU (27) volume of car sales in 2012 & volume change 2011 to 2012

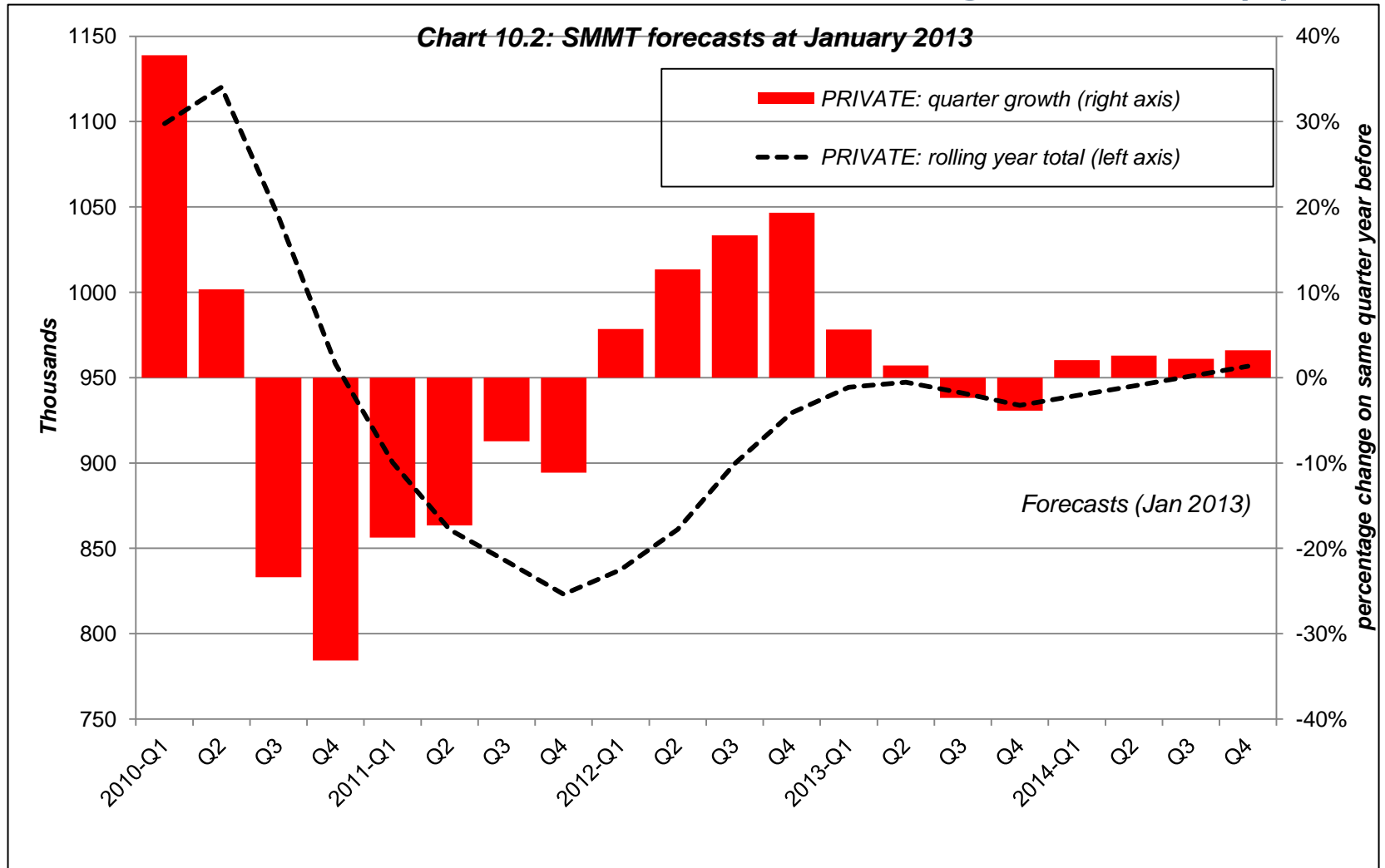


Net 1.076mn fall across EC27 (8%) = 8 states up by 117K in total (89% UK) & 18 down by 1.193mn

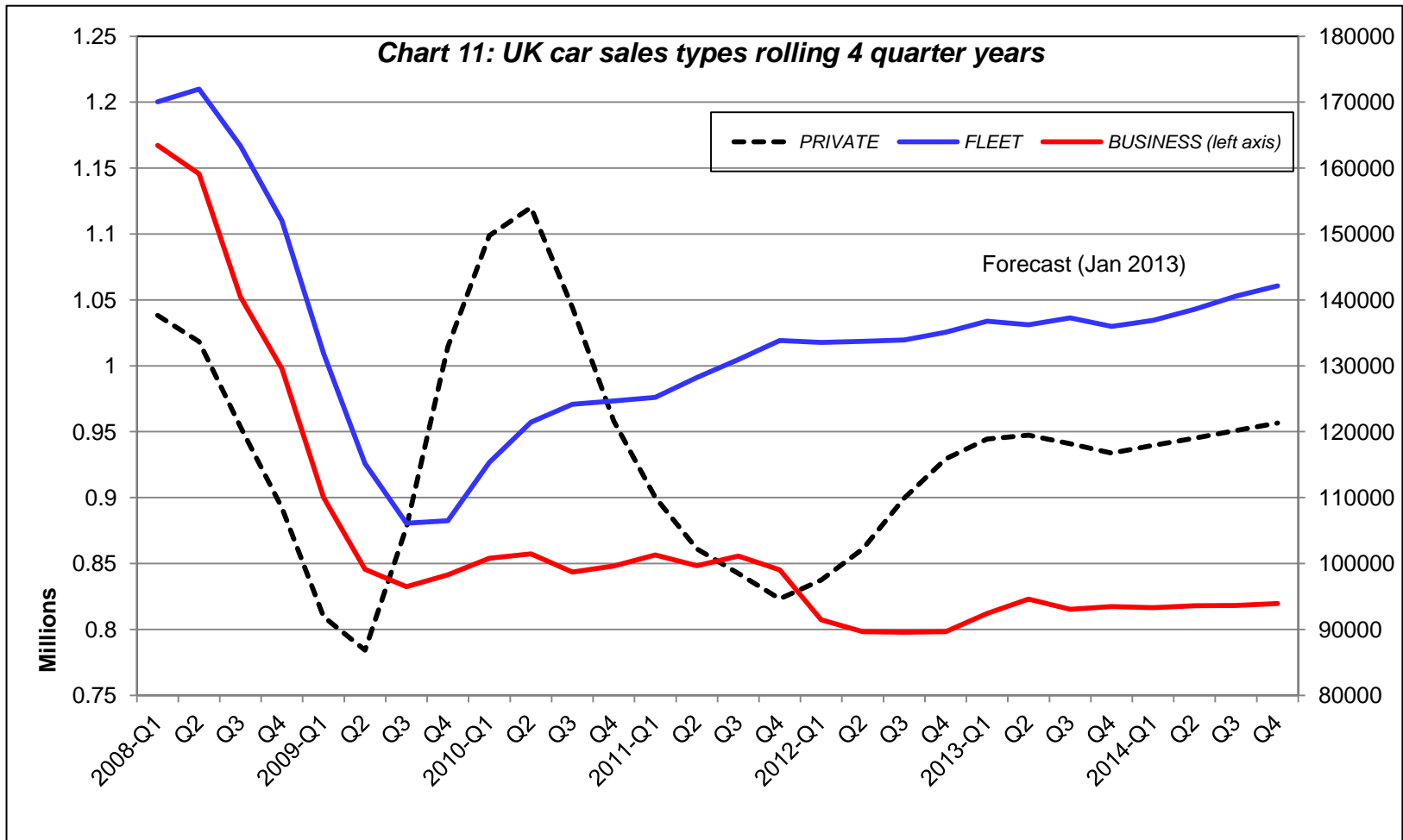
Car sales forecasts to 2014; 2012's gains held (1)



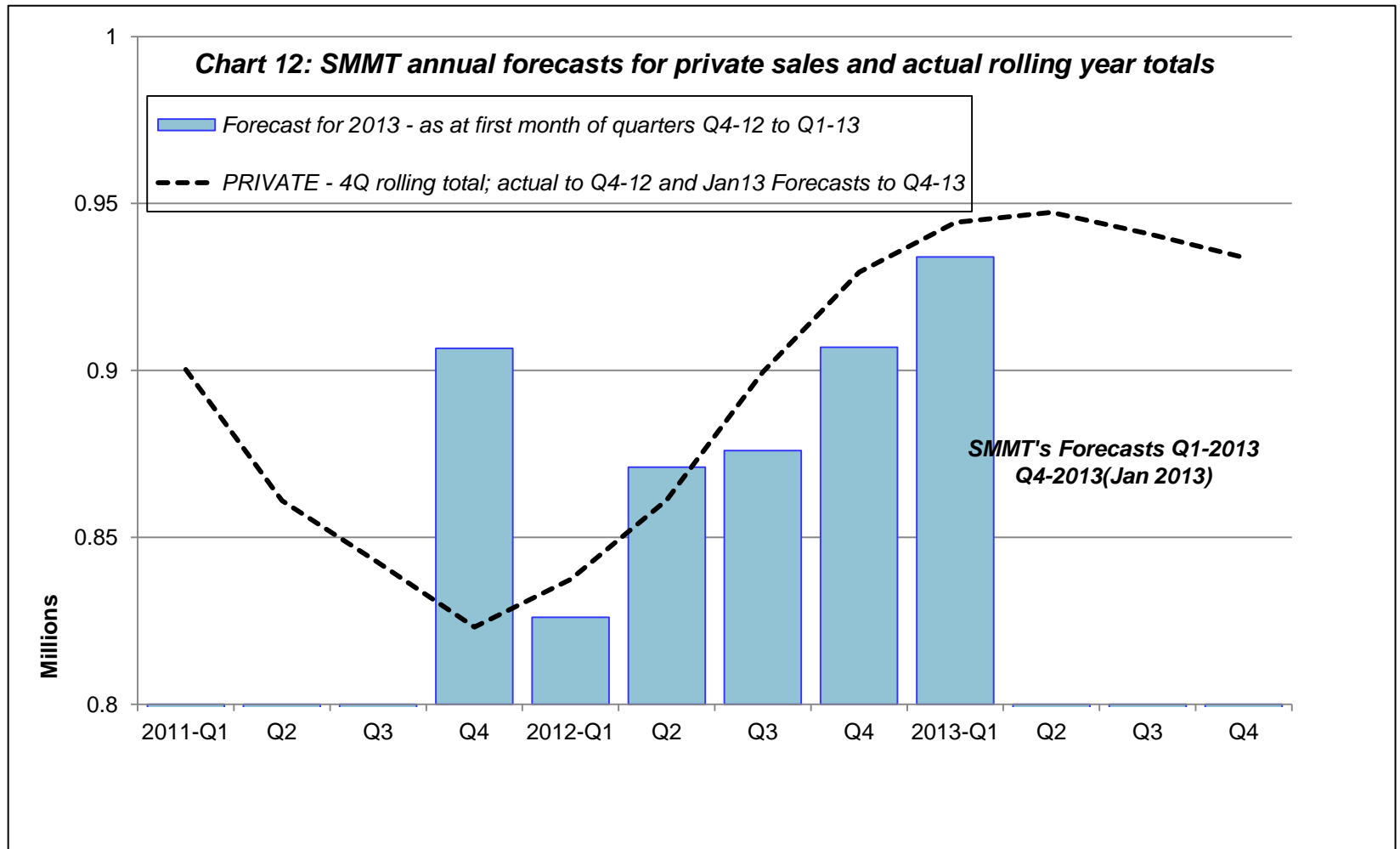
Private cars forecasts to 2014; 2012's gains held (2)



UK new car TIV to 2008 to 2014 – sales types



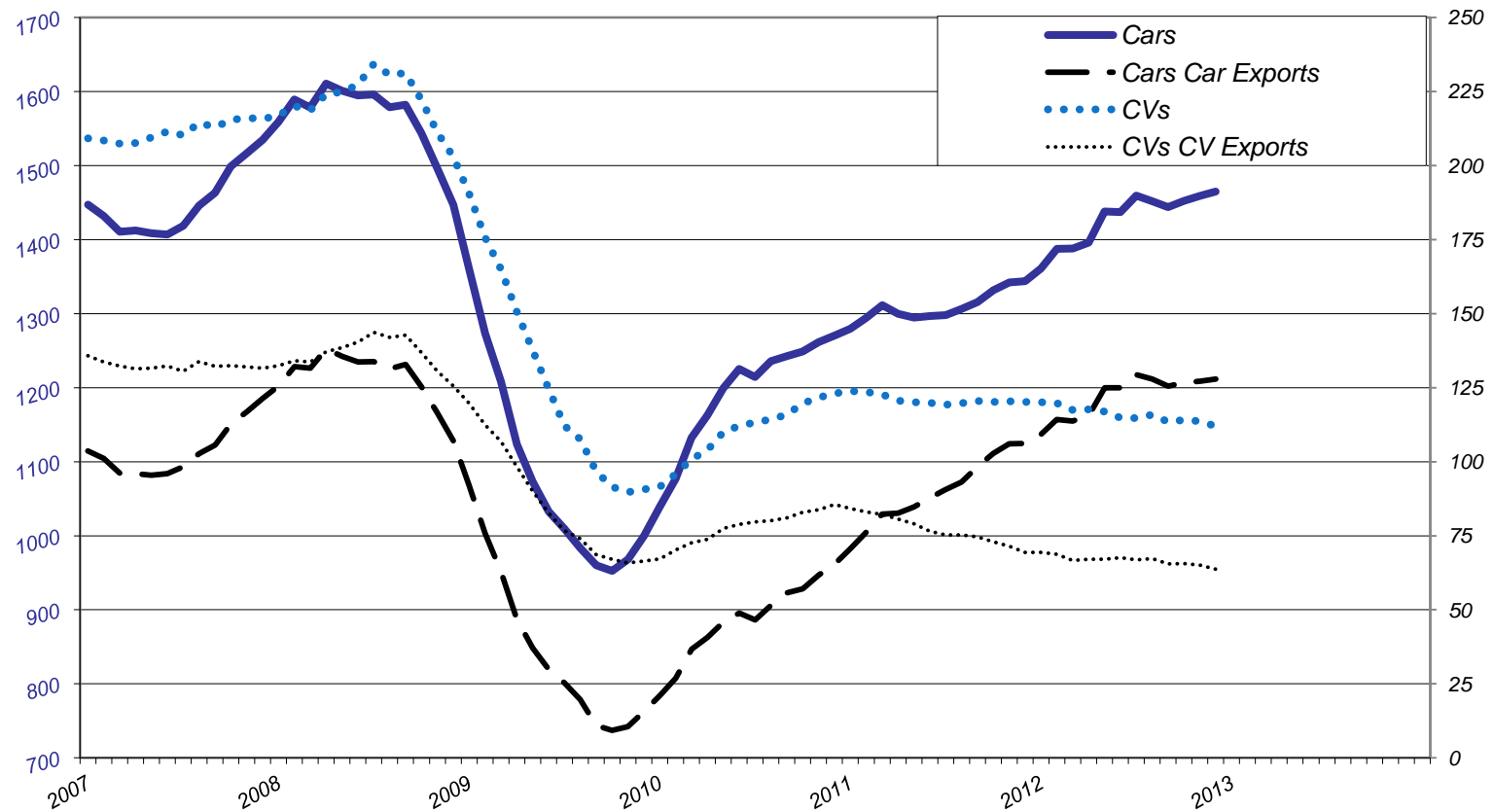
SMMT Forecasts – a note on coincidence



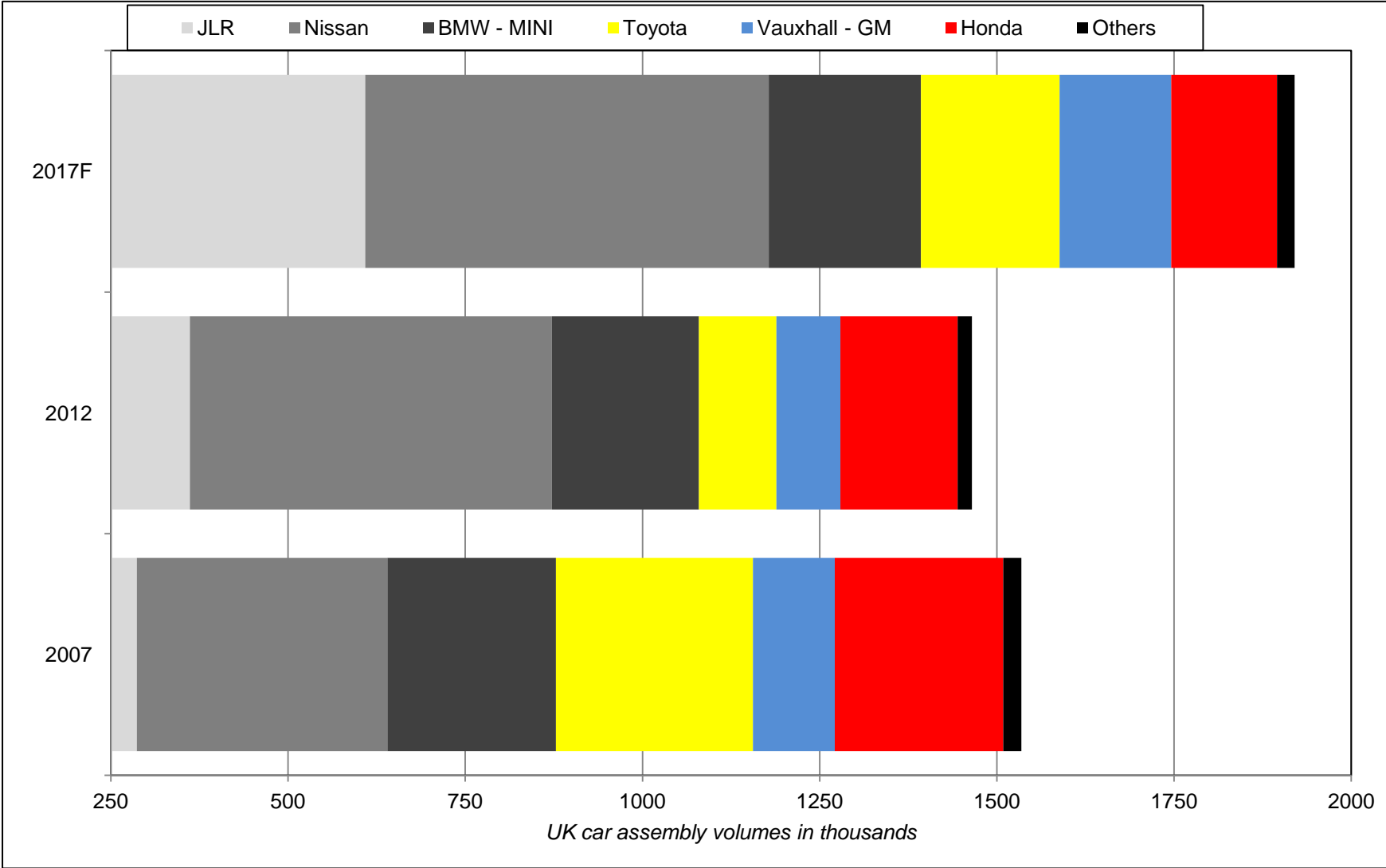
UK Output – cars on a roll; commercials readjust

Chart 13: UK Car & CV output volume trends - rolling years, 12 months to Dec 2012

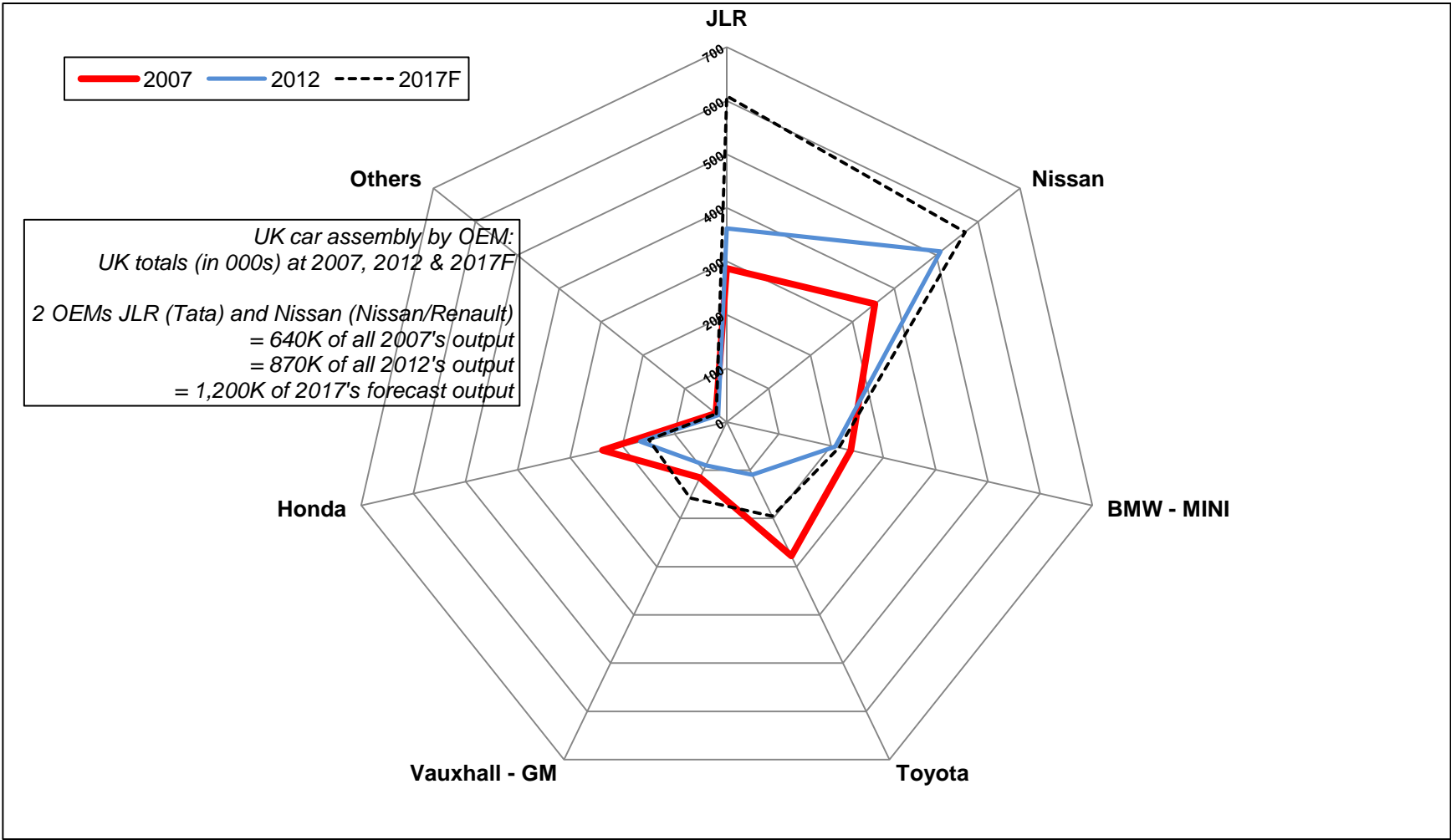
volume of cars and CVs in thousands. cars left hand scale; CVs right hand



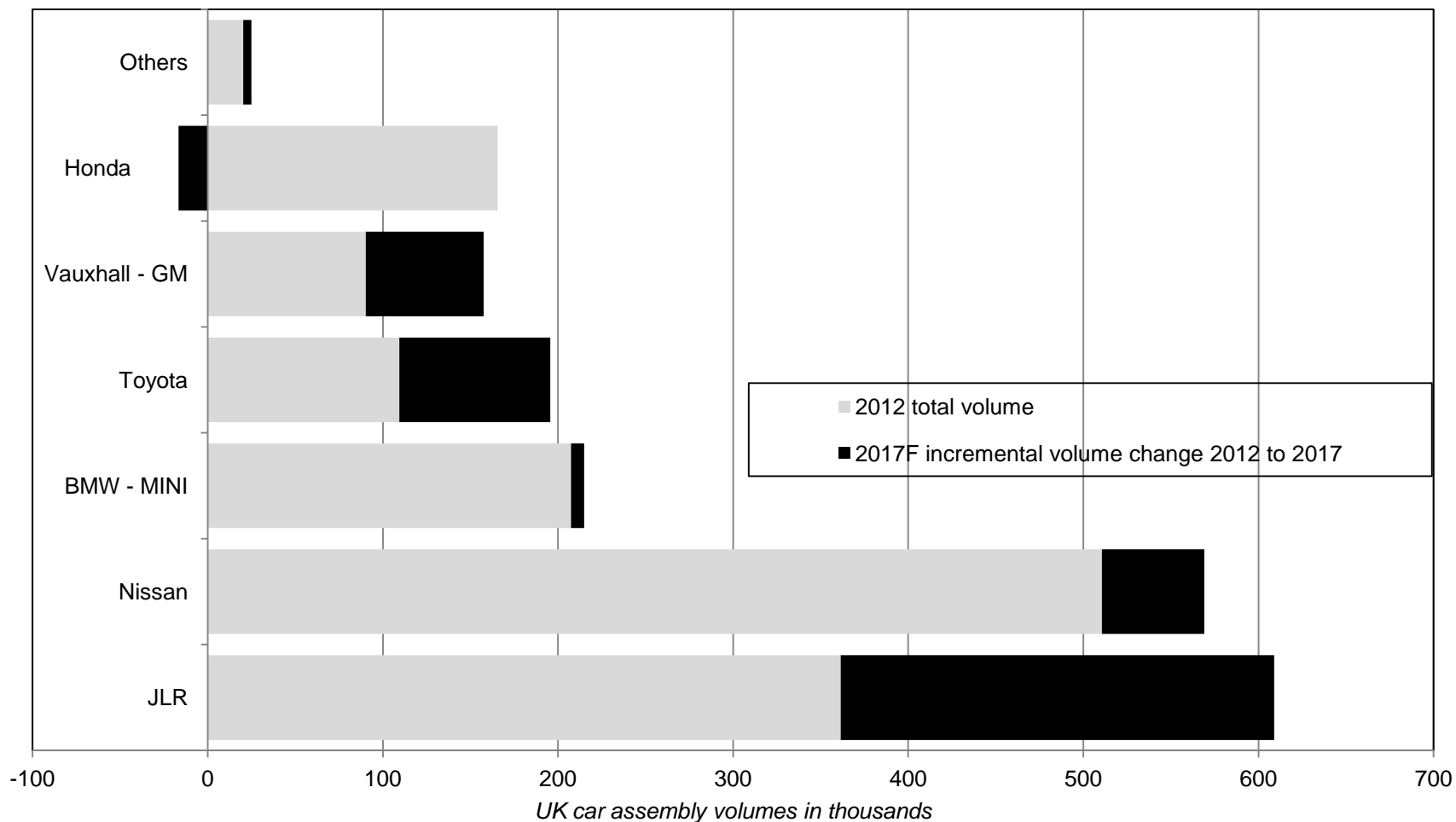
UK Output – developments in the mix (1) Chart 14



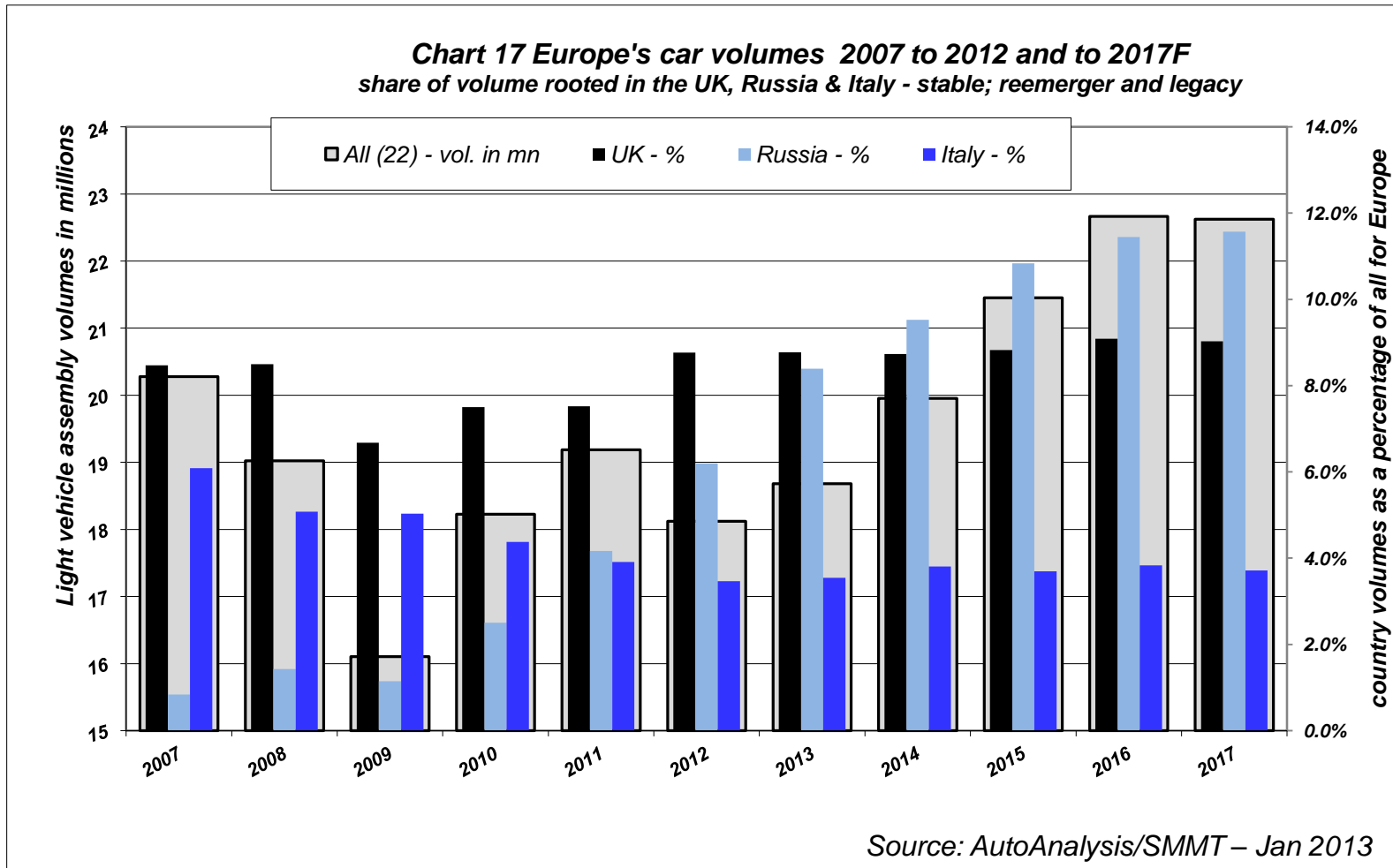
UK Output – developments in the mix (2) Chart 15



UK Output – incremental shifts 2012 to 2017 – Chart 16



European Output – key shifts 2012 to 2017 – Chart 17



In conclusion, on the UK economy and cars

Recovered; stable; firmer growth later not sooner

- Less restrictive outlook for immediate household spending
- External threats to trade, credit and confidence remain also domestic concerns on austerity & unique monetary policy
- Domestic growth potential & opportunities yet to be realised
- Car TIV and assembly stable, but big shifts in the mix
- Economy adjusting to major restructuring, rebalancing and reorientation agenda – unsure and unsteady growth likely

Ian Henry
Director
AutoAnalysis

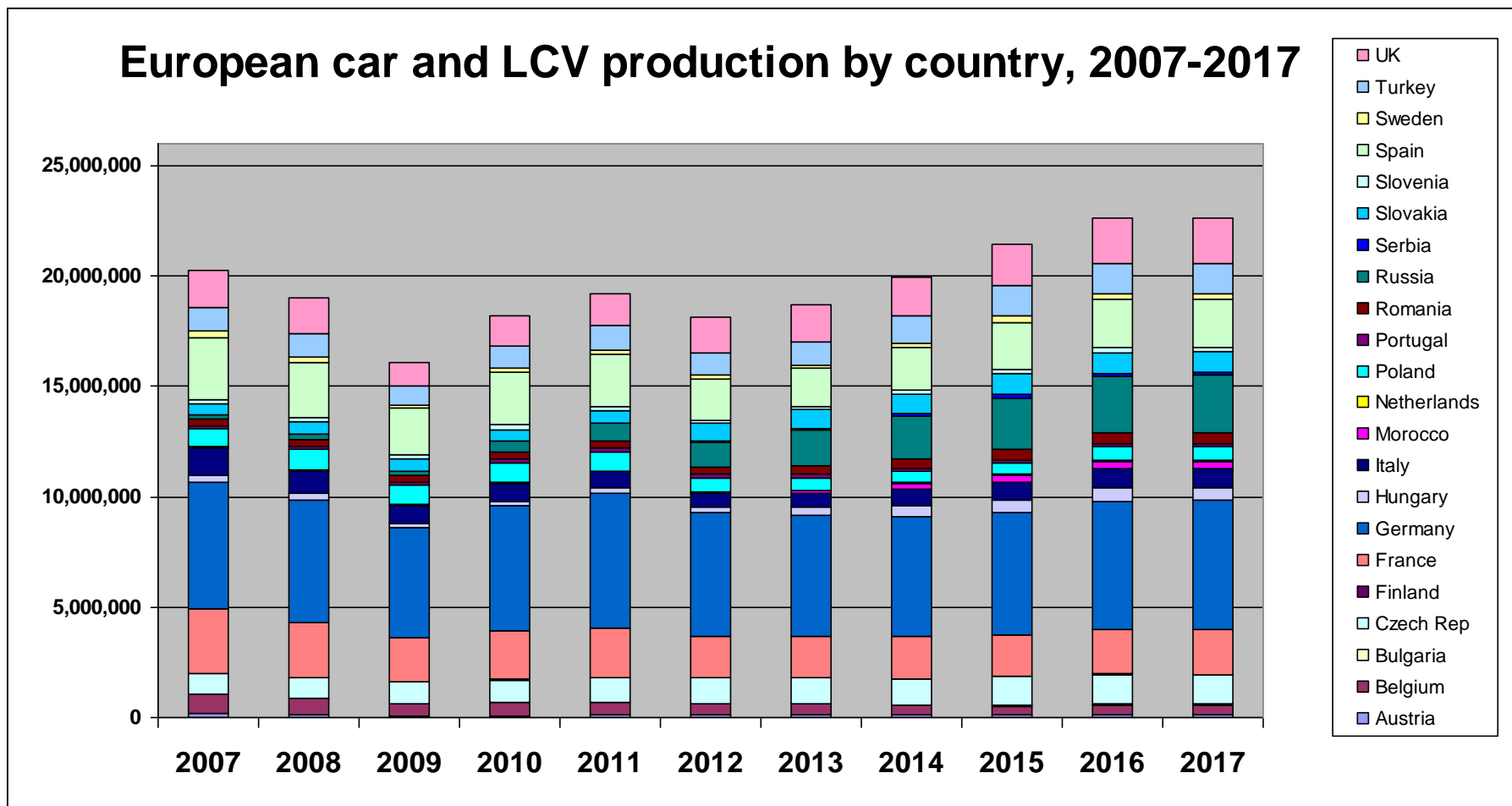
Production Outlook – 2012 key facts

- Provisional 2012 European production **inc. Russia** = 18.1mn, >1mn down on 2011:
 - **W/out Russia = 17mn, down >1.4mn**
- Production collapse prevented by modest growth in Czech Rep., Hungary, Romania & UK – and boost in Slovakia from VW Up!
- Big 2012 losers = Spain (c460k), Italy (c120k), France (c340k) and even Germany (c540k)
- **Larger than expected fall in Germany** due to wholesale decline at Ford & Opel and model cycle effects at Mercedes & especially Audi (A4/A6/Q5) and switch to new Golf

Production Outlook – recovery highlights

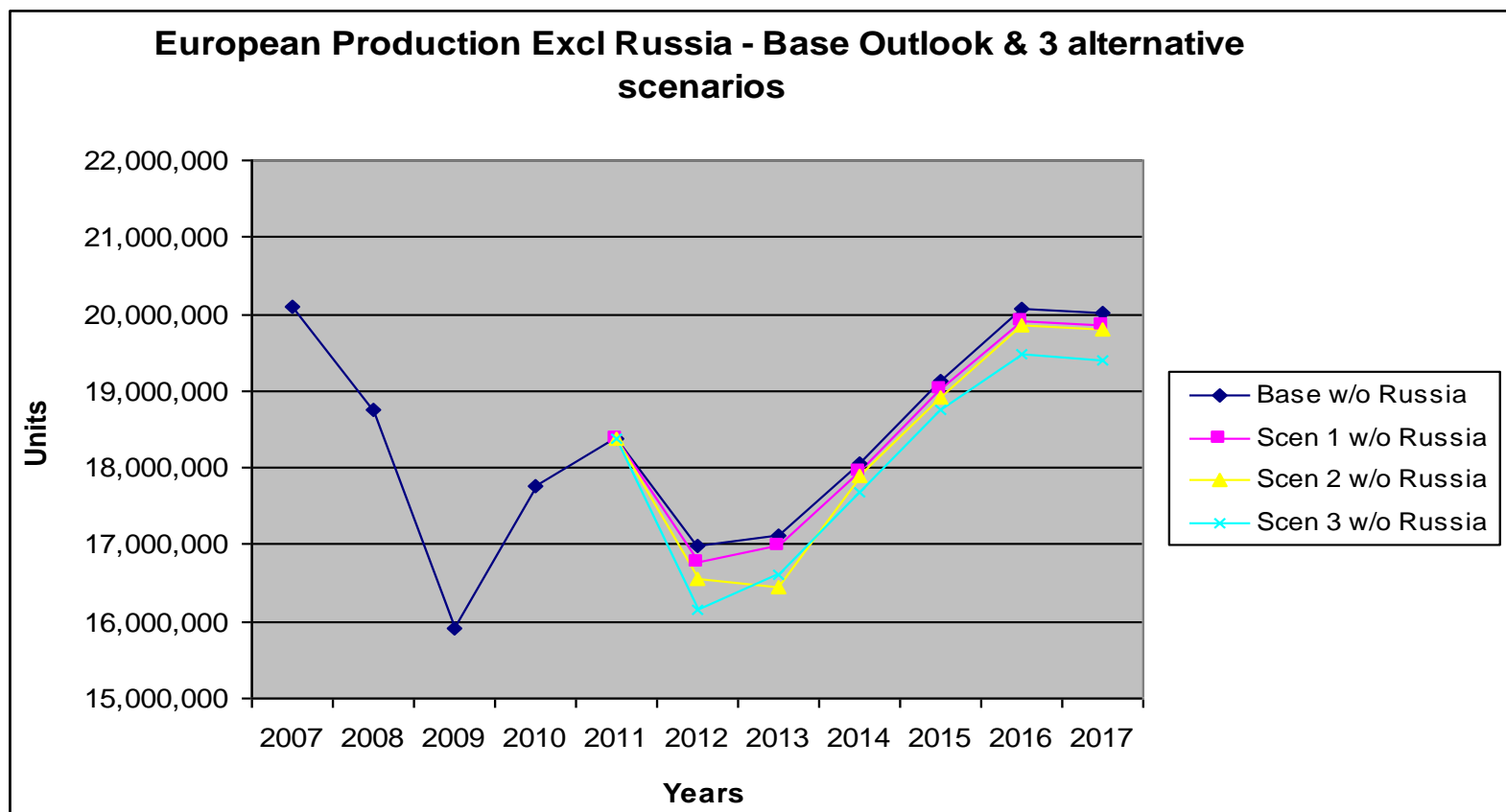
- **Germany will recover:** by 2017 should be back at 2007 peak
- **France, Italy & Spain = long-term losers, in 2017:**
 - France should be c30%/900k down on 2007
 - Italy down one-third/400k and Spain c20%/600k on 2007
- **Eastwards shift continues 2012-2017:**
 - Czech +c20%; Hungary + c140%
 - Romania +c40%; Slovakia +c10% or quite possibly more
- **UK production still growing**, by as much as c25% 2012-2017 if Mini, JLR and Nissan fulfil expectations, reaching c2mn upa:
 - Mini parts production boosted by Mini production in Netherlands

Base Outlook – all countries incl. Russia



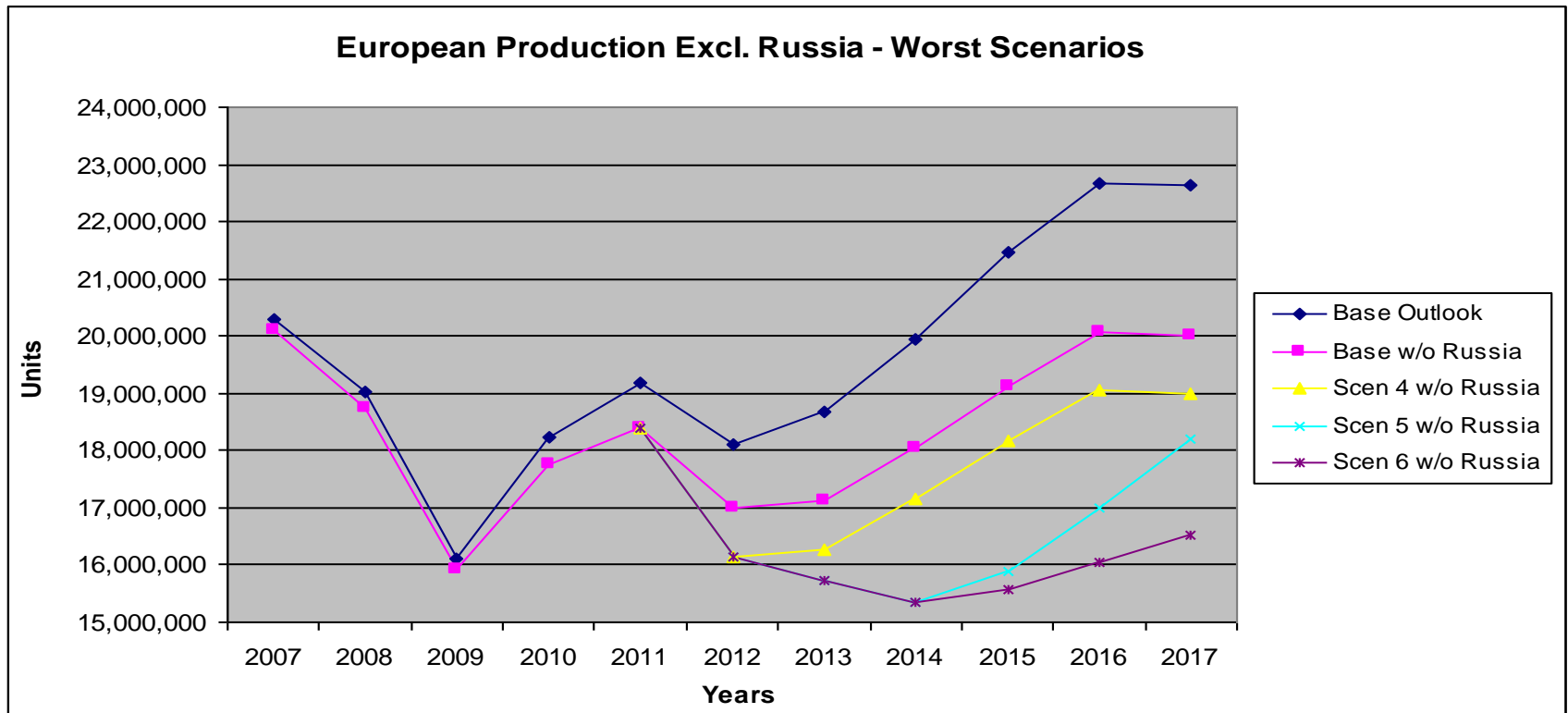
- Including Russia, it looks as if market recovers well from 2014
- However, the reality – without Russia – is somewhat different

Without Russia, the picture is less attractive



- Without Russia, and being optimistic, Europe takes *until* 2016 to recover to 2007 volumes
- Scenarios 1-3 assume fall of 1-5% in major markets above and beyond the falls inherent in our Base Outlook

However, it may be much worse ... much worse



- The widening gap between Blue and Pink lines highlights the importance of Russian production to Europe's total
- If 2013 is similar to 2012, **best case projection (Yellow) suggests it will take until 2016 for production to recover to 2008 levels; in turn this suggests European production may not recover to its 2007 peak**
- Continued decline in 2013-14 (Purple) not only delays long term recovery, but also risks market settling down at much reduced volumes: **Europe needs to consider implications of scenarios 5 & 6, esp. scen. 6**
- **If long run European production (excl. Russia) is <17mn upa or worse, AutoAnalysis does not believe current industry structure is sustainable**

Falling sales leading to falling production volumes and structural change at the volume VMs ...

- European car & LCV markets fell in 2012: EU27 at 17-year low
- January 2013 sales shows no sign of improvement, except UK which continued to rise:
 - SAAR @ lowest rate since 1987 ...
- 01/13 y-o-y falls:
 - W Eur: -9.5%; Germany: -8.6%
 - France: -15%; Italy: -12.6%; Spain: -9%
- Volume VMs' European production falling significantly
- Traditional brands facing long-run, structural decline as value brands and premium marques continue to grow:
 - New order for VMs in Europe beginning to emerge ...
 - VMs attempting new strategies: Fiat wants to move core brand upmarket, possibly adding value brand
 - Nissan and VW also considering value brands

Structural change under way at the volume VMs ...

- Restructuring began in earnest in 2012:
 - Ford, GM & PSA closing plants; GM and PSA bringing forward closure of Bochum and Aulnay
 - GM & PSA established a defensive alliance, but **benefits not yet apparent ...**
 - Fiat reorganising model allocation between Italian factories, slimming down, but not closing plants:
 - Investing €1bn at Melfi for new Fiat and Jeep small SUVs, to be made at 1600/day on a 3-shift basis
 - Cutting at least 1,500 jobs in Poland, with 2013 production likely to be ½ that in 2009
- Renault following Fiat approach, for now:
 - Claims that union deals (c7,500 job cuts) will lead to additional 180k upa in France, including 80k from “partners”
 - Nissan however has confirmed expansion in Barcelona not France
- ***Highly likely that Fiat & Renault will have to cut capacity***

Although things have changed, are recent actions enough?

- **VMs no longer just talking about restructuring – *they have had to act:***
 - GM and Ford each lost >€1bn in Europe in 2012; similar or greater losses expected in 2013
 - PSA, Renault and Fiat also loss-making in Europe ... PSA reportedly losing €7mn/day – unions expressed fears over potential bankruptcy
- **Will closures announced so far be enough?**
 - Can Fiat and Renault avoid closing factories for much longer?
 - Will Ford, GM and PSA close more plants?
- **Despite strength of German & UK premium brands, Hyundai-Kia and Nissan, we doubt whether non-EU exports can sustain European production in perpetuity, especially at the volume brands:**
 - VW group, Fiat, PSA, BMW and Mercedes all growing plants outside Europe, esp. in NAFTA, Brazil & China
 - VW also cutting Passat production in Germany, but adding shifts to cope with demand for Golf and Tiguan; and adding Golf production in Mexico

In conclusion ...

- **Production recovery unlikely before 2014, quite possibly 2015:**
 - Production revival will be shallower and slower than in 2009 ...
- **Increasingly likely that long run production volumes will be far below 2007-2008 peaks**
- **Further re-structuring and capacity cutbacks seem inevitable:**
 - Realistic chance of a major European name disappearing by the end of the decade, if not before
 - Rising strength of Koreans & Nissan and enduring appeal of German/UK premium brands should not be underestimated
 - More value brands likely to appear
- **Not a question of if/when European VMs will restructure further:**
 - Key issue remains: how much more change will be required?
 - National governments unlikely to be able to save national brands

Questions and Answers

Please click on the hand symbol to raise your hand if you have a question.

Please ensure that you are connected to the audio to ask a question.

Alternatively, you can type your question.



Email: memberservices@smmt.co.uk with your questions after this session.

Slides emailed to participants after this session