

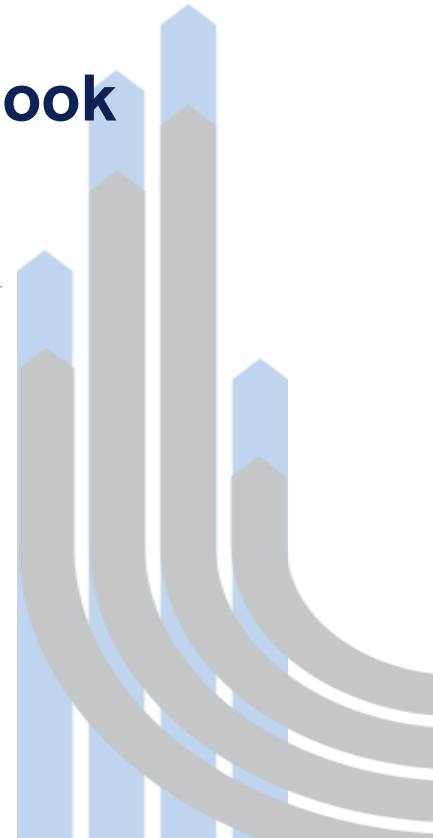
# SMMT Economic update and production outlook webinar

## Thursday 23 March

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Aimie Stone  
Economist  
SMMT

Ian Henry  
Owner  
AutoAnalysis



- During presentations (10:00 – 10:30) 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.
- If you are experiencing any technical problems please call 020 7344 1673.

## **Aimie Stone – Economist SMMT**

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Economic Outlook and Manufacturing Trends  
Automotive Sector Performance

# UK Economy recent trends and expectations for 2017

*Refocussed macroeconomic agenda: Resilience*

*Trends:*

*Currency volatility; the £'s big drop; stable but still not reset*

*Weaker real spending growth in the pipeline – less growth is the ‘new norm’*

*Expectations*

*Revised up GDP and spending growth expectations for 2017  
-2019 > 1.5%*

*Higher Inflation – rising from an ultra low base with  
prospects to overshoot target*

# UK Manufacturing trends

*Manufacturing output rose by 0.7% in Q4 2016*

*Weaker than anticipated manufacturing output in January 2017*

*Pharmaceuticals driving both growth and decline in the index of production*

*Partially offset by growth in other sectors including manufacturing of transport equipment - automotive sector is biggest boost to output*

*Boost to UK trade as exports of manufactured goods picks up in line with stronger global markets and demand*

# UK Automotive sector performance

## Cars

*Car manufacturing growth of 7.5% in January 2017 -147,922 units*

*Driven by boost to exports up 10.8% and reflective of UK manufacturing export growth*

## CVs

*UK CV manufacturing growth of 10.8% in January 2017 – 7,502 units*

*Domestic demand for CVs declined by -26% offset by export growth of 45.9%*

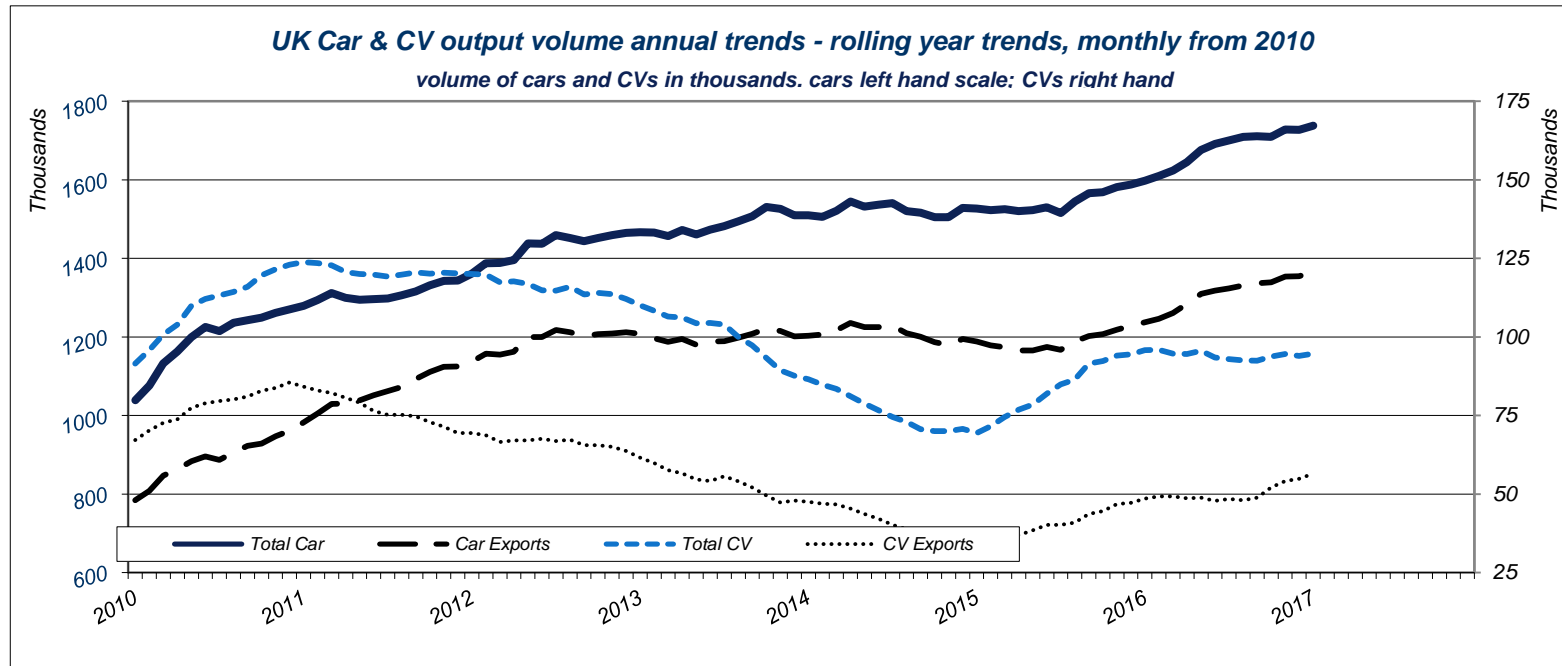
## Engines

*British engine production rising by 12.0% in January 2017 – 235,076 units*

*Growth seen in both the domestic market of 6% and export market of 16.5%*

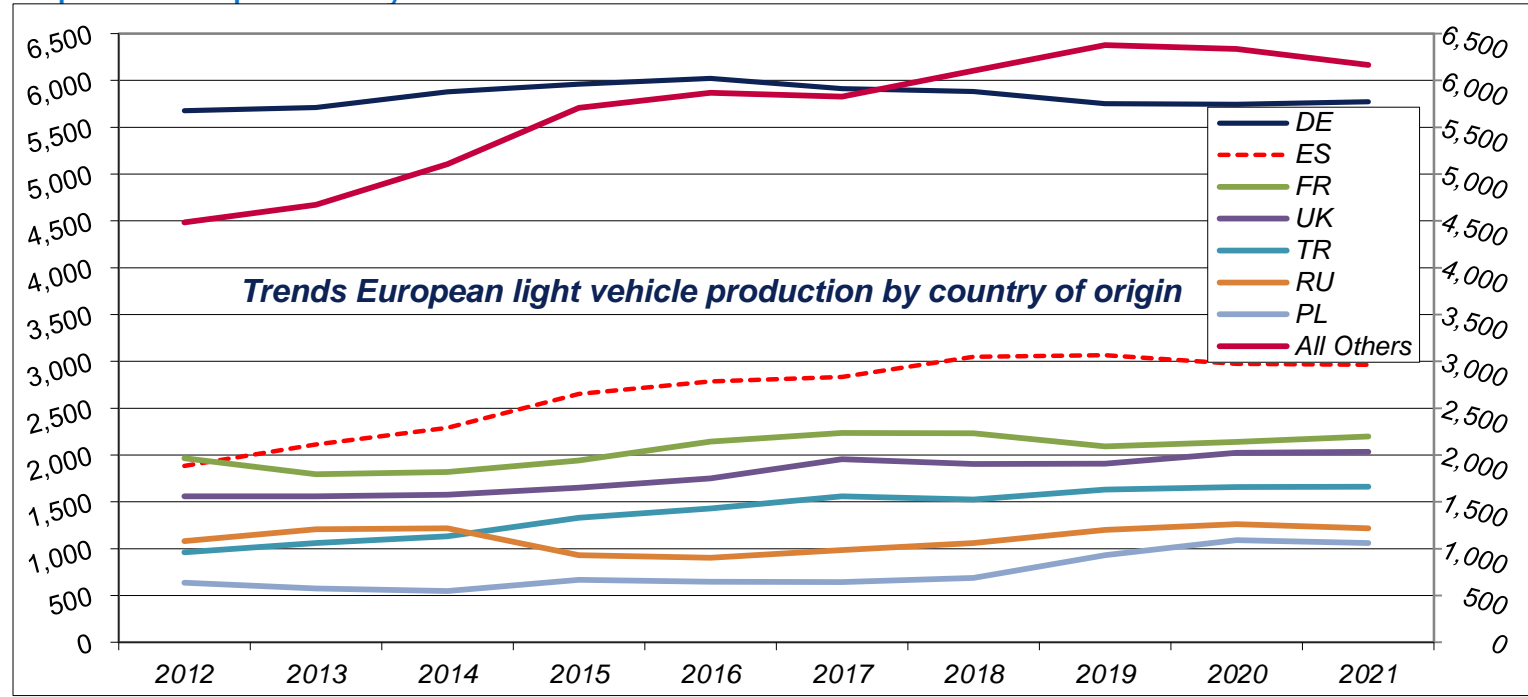
# UK new volumes

## Steady output growth – driven by exports – Chart 1



# Automotive sector performance in Europe

European Output – key trends 2012 to 2017 – Chart 2





## In conclusion

Resilience; slower growth expected later not sooner

Less growth is the new norm post financial crisis

Sterling stable but not yet reset

Political and economic uncertainty ahead both UK and beyond

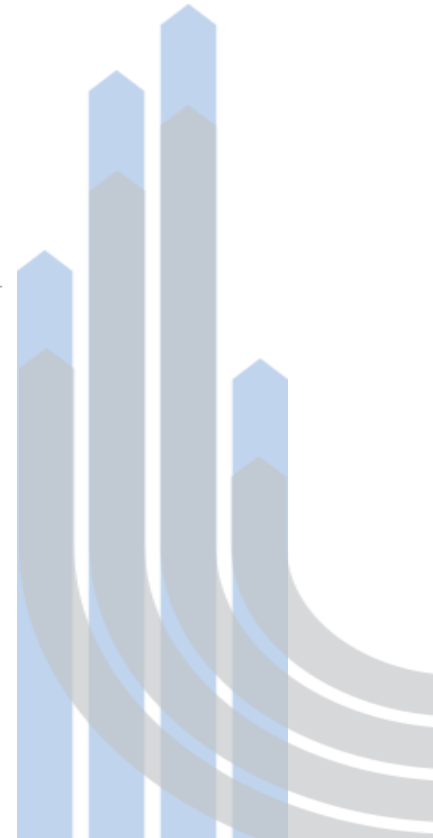
Auto-sector manufacturing driving UK manufacturing growth

Increased expectations of European and global growth encouraging for UK  
export performance

## Ian Henry, AutoAnalysis

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### UK Car and LCV short-term production outlook



# Outline

## 5 key themes ...

- 2016-17 UK production story
- GM & PSA
- Build-up to Brexit
- The Trump factor
- Supply chain issues ...

## 2016-17 in the UK...

...despite Brexit, so far largely business as usual

- Car and LCV production reached just under 1.8m in 2016
- Modest increase to nearly 1.9m still a reasonable expectation for 2017
- Despite Brexit vote, fear of disinvestment and market collapse, no change yet
- Post Brexit vote, UK VMs emphasised “business as usual”
  - **Honda** started production of global Civic
  - **JLR** expanded Castle Bromwich, continued international expansion
  - **Nissan** confirmed new Qashqai and X-Trail for UK
  - **Toyota** confirmed £240m investment for TNGA models in March 2017
  - **McLaren** plans composites factory in Sheffield
  - New **London Taxi** production start imminent

# GM and PSA

## 20 years of losses for GM in Europe, PSA returning to profit

- **GM gains:**
  - Solves problem of loss-making European operations
  - Management and capital available to focus on North America and China
  - Ability to accelerate switch SUVs, crossovers pick-ups, away from cars
- **PSA gains:**
  - Scale to share platforms and purchasing power
  - Access to GM electric vehicle technology under licence
  - Enhanced UK and German presence
  - Supply contracts for Holden Australia
- *But also has to address.....:*
  - *Over-capacity*
  - *Challenge of overlapping brands*
  - *Pension liabilities*
  - *Increased production capacity in high-cost locations*

***Who will be involved in the next round of consolidation?***

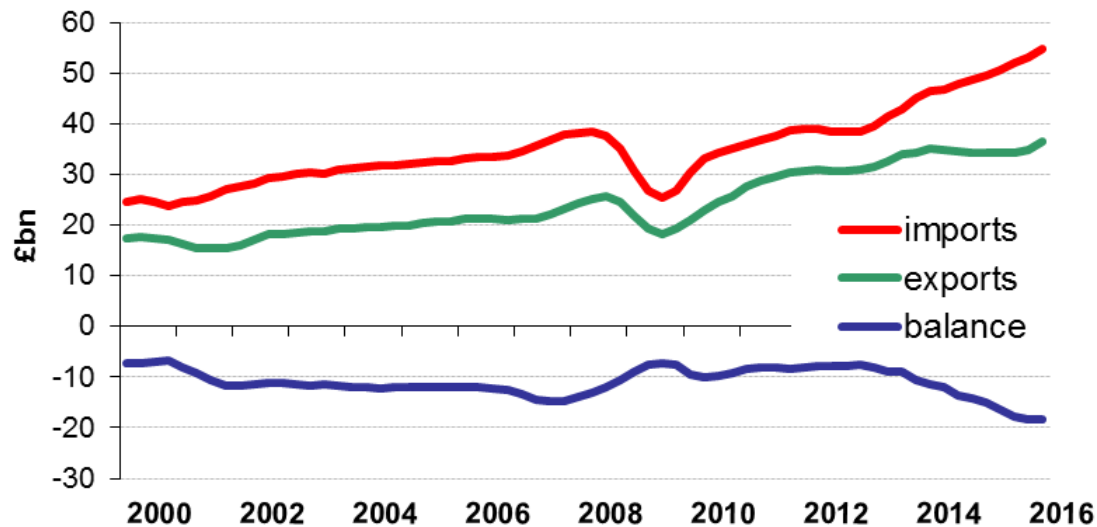
## Build-up to Brexit ...

... great uncertainty over future trading regime ...

- However, VMs have continued to invest in UK
- But Nissan's investment announcement tempered by recent cautionary statements:
  - UK investment will be reviewed once Brexit terms clear
  - Government support for supply chain growth essential
- Desire to increase UK sourcing intensifying
  - *Nissan, JLR, Toyota and PSA have made similar statements re boosting UK supply chain competitiveness*
  - *Attracting more suppliers to UK during Brexit negotiations likely to be very challenging indeed*

# UK's rising trade gap pre-Brexit...

## UK Automotive trade



PMDAnalysis 27/10/16

Source ONS Trade in Goods

- Rising UK Automotive exports: >£36bn
- Rising imports c£55bn, including £12.5bn in parts
- Fall in sterling adds to import cost pressures
- Rising vehicle production and new models represent real opportunity
- Reinforced by VMs' wish to boost UK sourcing
- Average UK content c41%, **with wide disparity between VMs – 25-55%**
- Will UK supply chain grow?

## Can the UK get to 2m units a year?

... immediately post referendum, fears of disinvestment expressed ...

- Nissan decision a major confidence boost
  - **Replacement Qashqai, new X-Trail, plant expansion**
- Nissan and JLR **could** make still >1.25m pa in UK
- Mini, Toyota, Honda, Vauxhall could make c700k pa ...
  - **Will all this happen in parallel?**
- With favourable Brexit deal maintaining UK competitiveness and Single Market access, 2m pa remains realistic
- Even a Hard Brexit could give a boost to UK plants, increasing focus on supplying UK and other RHD markets
- But there are risks:
  - Several decisions for replacement models likely **during** Brexit negotiations
  - Industry needs to keep pressure on government to maintain positive investment environment and boost supply chain



# The Trump factor ...

## ... potential impact on European VMs ...

- VW, Audi, Mercedes, BMW all have significant factories in operation or under construction in Mexico
- “Big border tax” threatened by Trump
  - Trump’s threats have already led Ford to change strategy for Mexico
  - VW will move supply of next Golf from Mexico to Germany – for lower tariff regime?
  - Audi Q5 factory is a sole supply source and threatened by Trump’s tax
  - Mercedes production at Nissan Mexico may be similarly impacted
- *But BMW continuing with Mexican 3-series plant; US plant flexible enough to add 3-series if necessary; could also supply Europe from Mexico (EU & Mexico have FTA)*
- *Trump policies could mean increased production in markets where vehicles are sold – with reduced exports/trade ...*
- ***Interesting implications for UK post-Brexit – will UK factories focus increasingly on supplying UK market ...?***

## Supply chain issues ...

... 2016 saw few significant tier 1 investments in UK ...

- Nissan and Toyota news should help business case for supplier investments
- **Gestamp** – the only major post referendum announcement
- **Magna** – castings plant announced before referendum
- UK VMs want increased UK sourcing ...
- Falling exchange rate is not enough alone to encourage UK investment:
  - Suppliers need confidence in VMs' long term commitment to UK
  - Sourcing for several UK models takes place within a European or global context
  - Planning issues, land availability and access to skilled labour remain worries
- Hard Brexit could favour more UK sourcing – which will be required to maintain UK plants' viability under WTO rules

## In conclusion ...

### ... no resting on laurels

- Rising production, Qashqai/X-Trail and Toyota investment commitment and continued new model launches from JLR are all good news
- But:
  - Decisions re other models to be made soon
  - Electric Mini, at least one Bentley and Astra replacement decisions to be made over next 12-24 months
  - Will other VMs take same approach as Nissan?
  - Will industry get customs and tariff free access to EU?
  - Can suppliers be attracted to UK ...?
  - Can UK attract new suppliers for EV future?
- UK automotive sector outlook still faces many uncertainties, but also has a great deal to be positive about ...

## You might also be interested in...

### Supply chain networking events



**6 June 2017**

A series of morning seminars focused on the automotive supply chain including networking and interactive discussions.

[Register](#) | [More information](#)



**7 June 2017**

A day of one to one meetings to facilitate automotive buyers from OEMs and tier ones to build and retain relationships with the upstream supplier base.

[Register](#) | [More information](#)

## 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@smtt.co.uk](mailto:memberservices@smtt.co.uk) with your questions after this session.

Slides emailed to participants after this session.

# Thank you

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**The Society of Motor Manufacturers and Traders Limited**

71 Great Peter Street, London SW1P 2BN

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