

Economic Outlook **no.1228**

September 2016

Special Report

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Public bumpers for the **automotive** market

Economic Research



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Economic Outlook no. 1228

Special Report

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EDITORIAL



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Algocracy

LUDOVIC SUBRAN

The Paris Motor Show opens in Paris on 1 October 2016. The timing is right for our special edition on the auto industry. This year, there are two notable trends. The first is greater intervention by public policy in market dynamics. The second is the growing public fascination with the future of the sector and in particular the autonomous car.

Whether in the United States or China, the United Kingdom or Spain, public policies will largely fuel the sales engine. Tax incentives, low interest-rates, and political uncertainty explain why new car registrations are taking off in some countries and stagnating in others.

The car remains the symbol of the middle class, and car sales figures herald a crisis or a recovery. Whether in Argentina or Iran, in Brazil or Turkey, open the hood and you will know what the situation is in the country. In parallel, many countries have opted for greater competition on value chains, reorganizing the automotive market via production.

After a year marked by the obsession with clean cars, following the revelations concerning a major German carmaker, it would seem that the sector needs to obtain reassurance by reinventing itself.

There is, therefore, a fascination with the vehicle of the future, which drives and parks by itself. It is now certain that artificial intelligence is challenging the auto industry and will very quickly make it easier to do things that we couldn't do otherwise. Imagine reverse parking!

Machine Learning and Big Data have already accelerated knowledge and shaped experience in many sectors, from the web to the Internet of Things. Robots could even prove to have singularity as defined by Kurzweil, that is possess artificial consciousness.

For the car, then, Stephen King was apparently right. We might be facing a rosy version of *Christine*. She can go and fetch the children from school by herself.

The search for the right algorithm, learning in varied road and weather conditions, and the resolution of legal and insurance gaps are all areas for investment by carmakers and tech firms. Making the user's life easier is essential, especially since the auto-machine would make better decisions than a human being.

Increasing parts of our existence are controlled, managed and regulated by algorithms. Algocracy looms. Asset management, online sales, entertainment choices, and soon our cars will be guided by our past choices.

I protest! What about the pleasure of driving, hair in the wind? Zigzagging on a deserted country road to impress your passenger? Stalling on slopes? I love driving, and it would be silly if they took that pleasure (too).

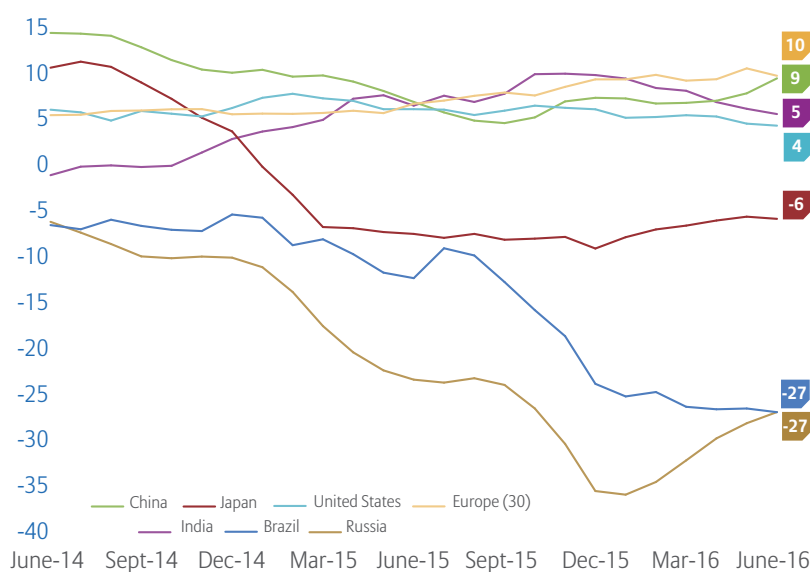
OVERVIEW

Public bumpers for the **automotive market**

YANN LACROIX, LEAD AUTHOR OF THE REPORT

In 2016, the global automotive market remains divided. On the one hand, Europe, China, and the United States will post strong growth. On the other, India is stagnant, Japan is floundering and Russia and Brazil continue their dizzying drop. Public policies will determine growth in many markets.

Chart 1: Growth in new car registrations for top markets
year-on-year



Sources: OICA, Euler Hermes

2016-2017: 24 markets all over the place

Euler Hermes forecasts by market:

1 • China. The largest market in the world, China, aroused concern last year when sales slowed sharply. The government intervened immediately and lowered the VAT rate on small and medium-sized vehicles. This measure, which will be maintained at least until 31 December 2016, restored some life to the market, which has returned to an 8% growth rate in 2016. The example of the termination of old car-scrapping incentives in Europe serves as a reminder that the end of stimulus measures leads to stagnation or even a fall in sales. This is an emblematic indica-



© Image Allianz 125957117

tor of the country's economic health, and we expect that the stimulus measures will be maintained in 2017, due to lobbying by the local stakeholders. We therefore forecast 5% growth in 2017, to sales of 24 million vehicles.

2• United States. Driven by low-interest rates and fuel prices, in 2016 the US market is expected to set a new record of 18 million units sold, representing 1% growth. In 2017, the end of this alignment of the planets points to a slight slackening. Sales were down 2%, to 17.6 million units.

3• Japan. The Japanese market has zigzagged for several years, between yen strength and government stimulus packages. The market, still depressed by the 2015 VAT hike which caused it to collapse by 14%, is expected to stabilize at 5 million units in 2016 before a moderate 5% rebound in 2017.

4• Europe. Growth remains sustained at 5.5% in 2016, i.e. 15 million units, but 2017 will probably see a stabilization due to Brexit and the end of the Spanish fever (end of old car scrapping incentives, not offset by moderate growth in the rest of Europe).

✓ **Germany:** With 5% growth to 3.35 million units, the market has regained its medium-term level. We therefore expect a stabilisation in 2017.

✓ **France:** The market is confirming its recovery, with 6% growth in 2016 following 7% in 2015. We expect a market of 2.1 million units in 2017, posting 3% growth.

✓ **Italy:** Given the momentum built up (15% growth in 2016), the market will nudge 1.8 million units, which is still far from its pre-crisis level of 2.4 million. In 2017, growth will probably continue, but at a more moderate 5% pace.

✓ **Spain:** : The planned termination of old car scrapping incentives at the end of the year will

cause a jolt: +11% in 2016, before -10% in 2017, i.e. 1 million units.

✓ **United Kingdom:** After achieving record sales of 2.7 million units by mid-2016, the UK market will slow down towards the end of the year as a result of Brexit. We expect modest 1% growth this year, before a sharp contraction in 2017 (-9%).

5• New players. Brazil and Russia continued their dizzying drops. Brazil will post 1.7 million new car registrations in 2016, down 19%, in the wake of its 24% drop in 2015. Russia, for its part, will see its third year of decline in succession: -10% in 2014, -36% in 2015, -11% estimated for 2016. India and Turkey, formerly growth drivers, ran out of steam in 2016, posting +1% and -1% respectively. Lastly, the new potential in Latin America, the Middle East, and Asia undoubtedly offers prospects in the medium term, but their growth has not stabilized and their markets will have very contrasting growth patterns. ►

A completely carbon-free, autonomous future: Not straight away

Ever more enticing announcements seem to promise a robust future for the carbon-free, autonomous car. And yet, many question marks still remain, and investments are still pending

Health and environmental requirements, scandals surrounding the real level of car emissions, coercive decisions such as urban traffic restrictions, and subsidies for clean vehicles are leading all the carmakers to become positioned in the new technologies. These range from hybrids (which allow driving for a few dozen kilometers, notably in urban areas, without any pollutant emissions), to the fully electric vehicle (whether by battery charging or the use of hydrogen), the cost and usage of which are still far from matching their engine-powered equivalents. The investments still needed are substantial, especially since they are combined with those related to vehicle autonomy, with the highly commendable objective of reducing the number of accidents, making road traffic smoother and making life easier for the occupants. These car manufacturing programs, which will extend over many years to come, herald the next revolution for an automotive industry that is more than a century old. In 2014 alone, these investments represented an R&D budget of around EUR 45 billion for the European automotive industry, or

8% more than in 2013, which makes the automotive industry the leading industrial sector in terms of R&D spending, ahead of pharmaceuticals. Moreover, a significant part of these investments is now made by Silicon Valley firms like Google, Apple and Microsoft. Accordingly, the magnitude of the amounts actually devoted to these road revolution projects is clearly underestimated.

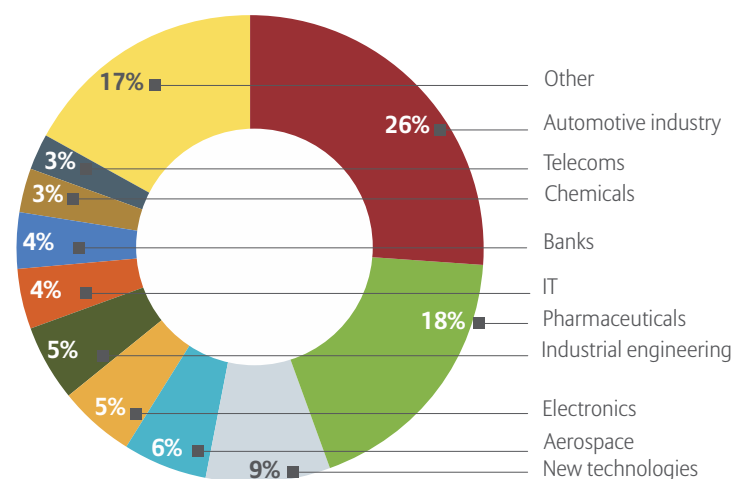
But in fact what is a clean car?

Given the transatlantic difference of opinions regarding emissions, and the investment required, it will be a long time before there is an agreement on the definitions. Whereas, in Europe, it is CO₂ emissions per vehicle that count, with a view to combatting the greenhouse effect and global warming, in the United States the focus is on NO_x emissions (fine particles inhaled by humans) and humans' immediate health. Technically, a petrol engine emits CO₂, but emits little NO_x, whereas a diesel engine emits less CO₂, but more NO_x. Diesel is a European tradition which is harder to export, whereas the Americas and Asia are almost exclusively positioned in petrol vehicles – only utility vehicles run on diesel. This difference is a source of complexity in establishing joint rules for automotive pollution control.

Some countries, especially in Europe, are starting to express their desire for a complete change of model, with sales of engine-powered vehicles (gasoline or diesel) being halted and replaced

by electric vehicles alone. Norway, for example, has set itself 2025 as the deadline, while Germany aims at 2030. Assuming an average vehicle lifetime of 20 years, Norway and Germany would have a completely carbon-free fleet by around 2045–2050. Analysis of the sales figures shows that EV registrations depend mostly on fleets and as yet little – except in cases of very significant subsidies – on private customers. It is likely to be a long time yet before a carbon-free vehicle fleet is achieved, and substantial long-term financing will be required for R&D and industrial investment.

Chart 2: Breakdown of R&D spending in the European Union by sector in 2014



Sources: ACEA, Euler Hermes



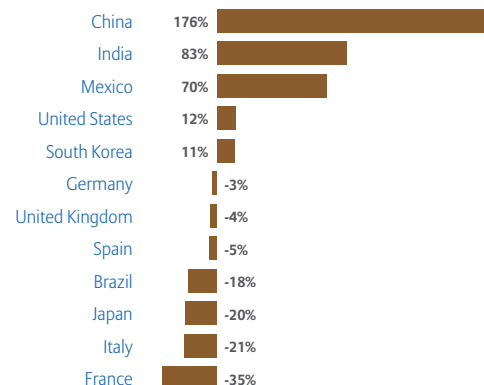
Feeling the way to autonomy

The autonomous car is a robot (artificial intelligence) which can analyze the situation and drive without human intervention. Its introduction will be sequential (use gradually extended to various road conditions, for example). Safety and comfort equipment should be ready by next year and should be more reliable especially with regard to connectivity. But many stages still remain before the driver can be delivered a vehicle without a steering wheel, without pedals and equipped with a TV set by way of a dashboard.



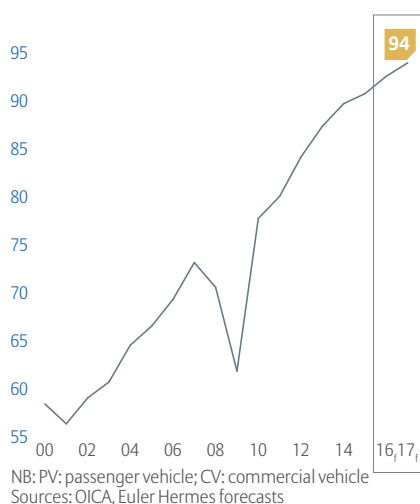
Chart 4: Growth in automotive production by country, 2007- 2015

percentage



Sources: OICA, Euler Hermes

Global automotive production
in millions of units (PVs and CVs)



The technologies and the legal liability rules are still in the concept phase. Lastly, it remains to be demonstrated that users will accept becoming passive.

So the revolution has been launched, but with 1 billion passenger cars on the road, several decades will be needed to obtain clean, autonomous vehicles for all.

Agility and patience, necessary virtues for carmakers

Growth in global automotive production slowed to around 2% in 2015 and 2016 and is expected to fall to 1% in 2017. This slowdown, far from the 3% post-crisis annual growth, requires that carmakers: (i) be present in the main growth markets while adapting their facilities to the sometimes erratic changes in those markets; (ii) provide a product offering which moves every day closer to regional needs, from ultra-low-cost for some emerging countries to the development of upmarket vehicles (with high value added) to finance heavy investment in new technologies; and (iii) continue to locate their production facilities where costs are lowest, especially for entry-range vehicles.

Automotive production by the yardstick of future consumption

Between 2007 and 2015, China's production increased by 176% to 24 million units, India's by 83% to 2.5 million (20% are exported), and Mexico's by 70% thanks to the United States, to which

80% is exported. Mexico symbolizes the advent of the 'factory country', where labor is cheap and the consumer is nearby. In Europe too, the competitiveness shock in some countries has reshuffled the cards and led to production transfers from formerly industrialized countries to the low-cost countries, mainly in the East and more recently in the South. For example, due to their carmakers' strong positioning in small models, France and Italy have experienced production declines of 35% and 21% respectively in volume terms. These changes are not ended: new markets and price competition at the doors of the consumer countries will mean further re-location of production lines, which have become more agile.

Apart from a mere cost perspective, the development of new product ranges, differentiated (SUV or 4WDs) or positioned (premium), makes it possible to maintain satisfactory production volumes in high-cost regions. Carmakers' product strategies and regional competitiveness agreements can enable the automotive industry to remain competitive and profitable while investing for the future. ■

Automotive
risk map

2016

Car manufacturing in 2016:

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 22, 2016

What are the risks?



CHINA

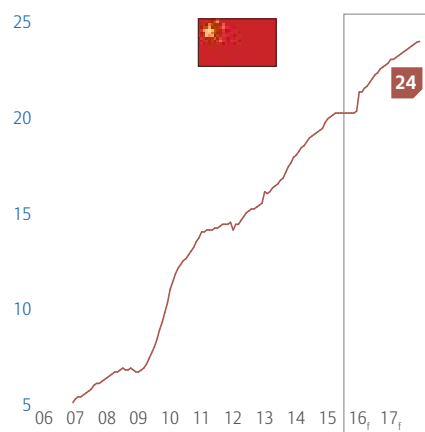
Tax break to continue

In order to boost a slowing automotive market, in September 2015 the Chinese government halved the tax on pollutant emissions from 10% to 5% for bottom-of-range and mid-range vehicles

Sales then rebounded sharply, and a sales volume exceeding 21 million units was posted. This tax measure was extended until end-2016 and the market continued its rebound, posting 8% growth to around 23 million vehicles. This advantageous tax system enabled the Chinese brands to look for consumption among less affluent households. In the past three years, these gained four percentage points of market share, reaching 43% in 2016. Success is due not only to far lower prices, but also to a product offering that is renewed rapidly and positioned on crossovers and SUVs which the Chinese are very fond of (sales growth of 50% and 18% respectively).

Chart 5: Growth in the number of new car registrations in China

year-on-year, in million of units



It is almost certain that these incentives will be continued in 2017

So as not to penalize a strategic sector for Chinese growth, the authorities will extend this tax loophole driving the market at a growth rate of 5%, i.e. to achieve 24 million units in 2017. Growth will come mainly from the hinterland regions, while the coastal cities, heavily polluted, are increasingly subjected to registration and traffic restrictions. These regions are the preserve of the Chinese carmakers. If the tax reduction were not extended, we anticipate a market contraction of between -5% and -10%.

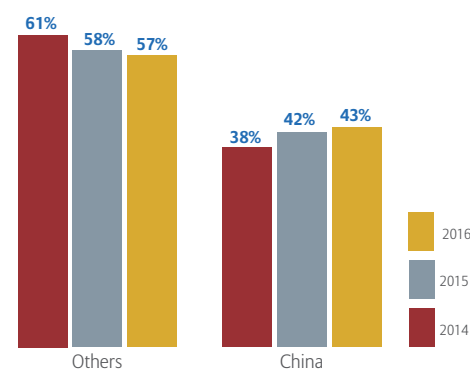
Forced development of the electric car

In order to combat rampant pollution, the authorities are introducing restrictions and incentives. Firstly, the purchase of a new vehicle in Beijing or Shanghai is subject to a prior lottery, and this extends the purchase time to several years, except for an electric vehicle. Next, the incentives can amount to as much as EUR 15,000 (central government and regional aids combined) for the purchase of an electric car manufactured by a Chinese carmaker. While it is indisputable that sales of electric cars will increase, their market share remains limited. ■

Sales growth
in China
+8%
in 2016

Chart 6: Market share by origin of carmakers in China

as %



Sources: CCAM, Euler Hermes



UNITED STATES

Interest rates and fuel prices positive for the market, not for energy transition

This year the US market is expected to beat its sales record, at 18 million units, following 17.8 million last year

The oil counter-shock and the indefinite postponement of US interest-rate hikes will have borne fruit. Loan durations extended to more than six years and an obvious oil dividend for purchasing power are supporting the automotive market in its seventh year of growth. With these exceptional boosters likely to end soon, we are bound to anticipate a slight market contraction by 2% to 17.6 million units in 2017.

Light utility vehicles (LUVs) are on a roll

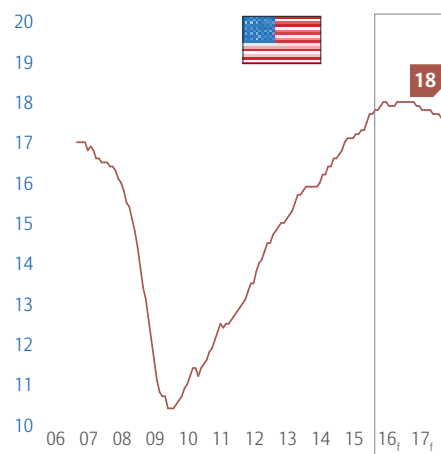
Large pickups and SUVs, petrol-guzzling symbols of Made in America, are back in force. They

account for almost 60% of the market and offer big margins for the carmakers. Thanks to the success of these locally assembled LUVs, US automotive production will reach 12 million vehicles this year, i.e. double the 2009 level, and a level identical to that of the early 2000s.

The Google Car, symbol of a revolution?

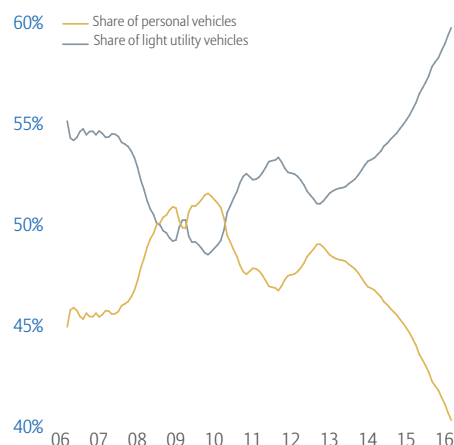
With no steering wheel, no accelerator and no brake, this technological gem launched in 2015 on the roads of California is now capable of traveling without a driver from a point A to point B without human intervention. Automotive industry and high-tech players, as well as the government, plan to devote USD 4 billion to autonomous cars over the next ten years.

Chart 7: Growth in the number of new car registrations in the United States
year-on-year, in million of units



Sources: Auto Alliance, Euler Hermes forecasts

Chart 8: Sales breakdown between PVs + LUVs in the United States



Sources: Auto Alliance, Euler Hermes
NB: PV: passenger vehicle, LUV: light utility vehicle of the crossover, 4WD or pick-up type

Pending this revolution, US automotive manufacturers have posted earnings that are satisfactory but very closely tied (80%) to the North American continent

Restructuring operations and the upturn in the European market could go hand-in-hand with some profits after years of losses, while South America is disappointing against the backdrop of the Brazilian crisis. Following 0.6% revenue growth, we expect 3% growth in 2016 and 1% in 2017. The operating profit margin, for its part, will be in the 4.6% range. ■



In 2016, sales record at
18 millions
units

© Image Allianz 1196149462

JAPAN

Zigzagging market for carmakers

A market that is still as volatile, with sales fluctuating between 4 and 6 million units over the past ten years

The Japanese government has decided to put off until 2019 the VAT hike scheduled for April 2017, since the market still has great difficulty withstanding the hike of April 2015. However, the market is expected to post flat new car registrations in 2016, after a drop of more than 14% in 2015. 2017 could surprise on the upside, with 5% growth to 5.3 million units. The Japanese market is still as closed (94% share for Japanese carmakers) due to various technical and customs barriers, so these fluctuations have no impact on the global market.

The archipelago of global giants: Toyota and Mitsubishi 2.0

While Toyota oscillates between No. 1 and No. 2 in the world for the number of units sold, the announced partial takeover of Mitsubishi by Nissan (also an ally of Renault-Dacia) could mean that the latter group will also be in the race for the leading positions. They would automatically marginalize the other Japanese carmakers of more modest size, and this would favour major, innovative investments.

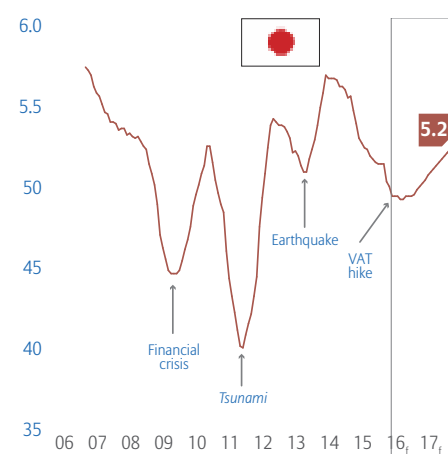
Such clout would enable the Japanese automotive industry to post an operating profitability ratio close to that of the premium makes. In 2016 and 2017, revenue is forecast to grow by 6.5% and 4.5% (6.9% in 2015) and the operating profit margin is expected to be 7.4% and 7.2% respectively.

All-electric or all-hydrogen?

Limited mileage and a shortage of recharging infrastructure put a cap on the electric vehicle's

market share. That is why the Japanese have also just brought to market the first hydrogen models, which, although they are still technically very costly, offer a technology providing similar performance to that of conventional engine-powered vehicles. ■

Chart 9: Growth in the number of new car registrations in Japan
year-on-year, in million of units



Sources: Jama, Euler Hermes forecasts

7.4%
operating profit
margin
in 2016

Table 1: Revenue and profit margin trends in Japan

Japan	2011	2012	2013	2014	2015e	2016f	2017f
Rev growth (1)	1.0%	1.9%	12.4%	19.6%	6.9%	6.5%	4.5%
Op profit margin (2)	4.2%	2.9%	5.4%	7.3%	7.6%	7.4%	7.2%

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

(1) Revenue growth relative to prior year

(2) Op profit margin: Operating profit relative to revenues



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EUROPE

Driving growth?

The European market will grow 5.5% in 2016 to around 15 million units. All the countries are in positive territory this year

In 2016 all European countries will contribute to this new growth year, the third in a row. Italy and Spain continue their catch-up, with sales growing by 10%, although still below their pre-crisis level. France and Germany are doing better and should (at last) regain their pre-crisis level, with sales growth of 6% and 5% respectively. Lastly, in the United Kingdom, new car registrations will peak at around 2.6 million units.

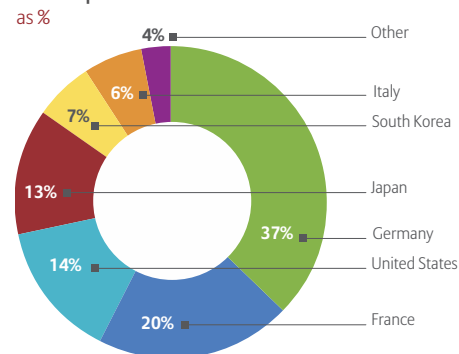
In 2017, the British and Spanish engines will experience some misfiring, forcing sales to stagnate in Europe

While the trend for the past three years suggested that the level of 15.5 million unit sales could be regained in 2017, Brexit and Spain's announcement of the end of its old car scrapping incentives have disrupted this recovery sce-

nario. Italy (+5%), France (+3%) and many peripheral countries will continue to forge ahead, while the United Kingdom is expected to lose 9% of sales, or 205,000 units, and Spain 10%, or 100,000 units. Against this backdrop of a market slowdown, there will be even more intense competition between producer countries, which via competitiveness agreements will be awarded contracts for new models and will ensure volume production, and designer countries, which will offer the best product ranges and the best technologies in line with end-customer expectations. Margins, meanwhile, restored thanks to low oil and steel prices, are likely to be put under pressure. ■

15 millions
cars sold in 2016

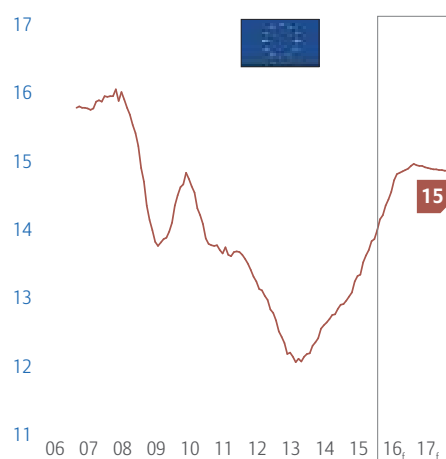
Chart 10: Market share by origin of carmakers in Europe



Sources: Association of European Car Manufacturers, Euler Hermes

Chart 11: Growth in the number of new car registrations in Europe

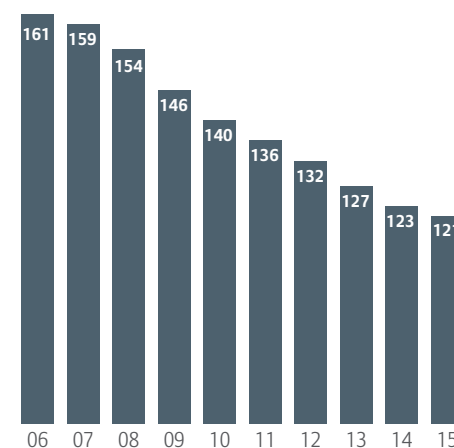
year-on-year, in million of units



Sources: Association of European Car Manufacturers, Euler Hermes forecasts

Chart 12: Change in CO2 emissions by vehicle in Europe

in grams per kilometer



Source: Environment European Agency



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The UK and Spain

Brexit and the end of the Spanish miracle

The first Brexit effect on the automotive sector

A fall in household confidence and purchasing power is expected to push sales down by 9% in 2017. Further out, the country is faced with numerous challenges in renegotiating trade agreements with the European Union and with the 50 countries with which it has an agreement via the EU.

In 2015, the UK automotive industry's exports were worth EUR 46 billion, of which 43% to the European Union. This dependence is mutual: the United Kingdom imports motor vehicles and

parts worth EUR 70 billion, mainly from Germany (EUR 29 billion) and France (EUR 4 billion).

A gentlemen's agreement favorable to both parties is envisaged, but this will take time. Note too that, in the long run, if the renewed competitiveness hoped for by exiting the EU is to be achieved, notably through a more aggressive industrial policy, the automotive industry will be in the limelight. Since most British makes are now owned by foreigners, this industry will have to give reassurance and demonstrate its potential if it wants to attract investments.

Chart 13: Growth in the number of new car registrations in the United Kingdom and in Spain

year-on-year, in million of units

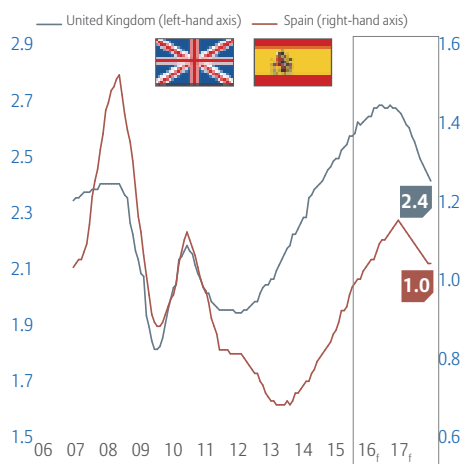


Chart 14: Growth in the number of vehicles exported, Spain

year-on-year, in million of units



-9 %
drop in the
UK market
in 2017

Spain faces the end of the old car scrapping incentives in place since 2012

The Spanish market, kept on life support for more than four years, has gradually regained some momentum, reaching more than one million units at end-2015 and 1.1 million (projected) at end-2016. However, the market, which collapsed from 1.5 million units in 2008 to less than 0.7 million in 2013, has never regained its pre-crisis volumes. The announced termination of these incentives, worth EUR 2,000 per vehicle, will lead to a major slowdown in automotive sales in 2017. We expect a surge in sales this year, at the cost of a steeper fall next year, by around 10%. Production, which is very export-oriented (86%), should remain stable. With its competitiveness agreements on working hours and pay, Spain has become established as the second-largest European producer, with around 2 million cars produced this year. ■

France

Things are going better

+6%
in 2016

The French market has gathered momentum

Following 7% growth in 2015, it is expected to grow by 6% in 2016, before slowing to 3% in 2017. By then it will reach around 2.1 million units, the standard level for renewal of the car fleet. The continuous fall in sales of diesel vehicles (53% of total sales in 2016, versus 73% in 2012) is likely to gather momentum due to stricter pollutant emission requirements and the extra costs this will entail. The electric car, for its part, still represents only 1.1% market share in the first five months of 2016, versus 0.9% for full-year 2015.

Chart 15: Growth in the number of new car registrations in France

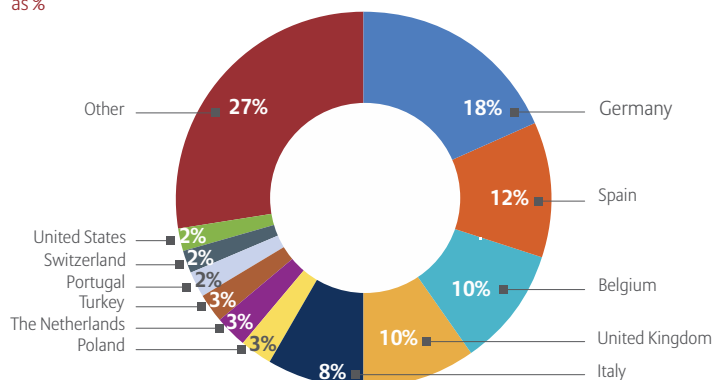
year-on-year, in million of units



Sources: CCFA, Euler Hermes forecasts

Chart 16: Automotive sector exports by destination in 2015

as %



Sources: ITC, Euler Hermes

Automotive production, for both passenger vehicles and light utility vehicles, likewise recovered in 2016, posting 10% growth to 1.65 million units

However, this production level is still nearly two times less than its level of 10 years ago. This good news regarding production will be short-lived: entry-range models will probably continue to be produced mostly in low-cost countries.

The value of trade by France's automotive sector with the United Kingdom is around EUR 4 billion, or around 10% of total trade

French imports from the United Kingdom represent only EUR 1.9 billion. At present, the question concerns movements in the euro/pound sterling exchange rate, which is adversely affecting British demand and the profitability of the UK market for the French carmakers (which do not directly have a local production plant). Pricing power is weak, and a rise in selling prices would immediately penalize market share to the benefit of local producers. ■

ZOOM

Profit margin differential between German and French carmakers

The German carmakers post operating profit margins of around 7% when those of French groups are in the vicinity of 4%.

French carmakers have regained a satisfactory level of profitability through a renewal of their product ranges and competitiveness agreements.

The gap still persists due to:

(i) the German advantage in terms of quality (and hence price);

(ii) global market diversification which serves as a growth driver; and
(iii) returns on past investments, thanks to high profitability, continually, over the past six years. ■

Table 2: Revenue and profit margin trends in France and Germany

France	2011	2012	2013	2014	2015 _e	2016 _f	2017 _f	Germany	2011	2012	2013	2014	2015 _e	2016 _f	2017 _f
Revenue growth (1)	6.4%	-4.4%	-2.8%	-1.5%	7.9%	5.0%	3.0%	Revenue growth (1)	17.4%	14.7%	1.9%	5.5%	10.2%	6.0%	4.0%
Op profit margin (2)	1.9%	-4.6%	-1.5%	1.5%	4.2%	4.4%	4.5%	Op profit margin (2)	8.4%	7.3%	7.0%	7.6%	4.0%	7.0%	7.3%

Sources: Volkswagen, Daimler et BMW groups, consensus, Euler Hermes forecasts

(1) Revenue growth relative to prior year (2) Op profit margin: Operating profit relative to revenues

Germany

Cleaner than clean

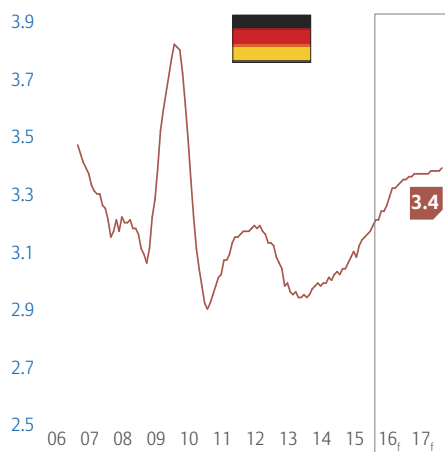
+5 %
in 2016

The German market will post 5% growth to 3.35 million units this year

This is a return to a record level. We estimate that the prospects for 2017 will be more moderate, with growth limited to 1%, i.e. 3.4 million vehicles. In contrast with other markets, the share of diesel continues to increase, accounting for 49.6% of sales in the first half of 2016, versus 48% for 2015. Lastly, note that Germany recently introduced (on 2 July 2016) a 4,000 Euro subsidy for the purchase of electric vehicles, and a 3,000 Euro subsidy for rechargeable hybrids. Ulti-

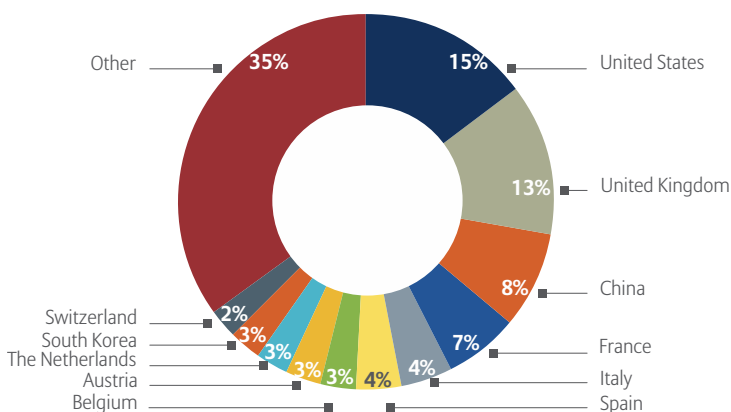
Chart 17: Growth in the number of new car registrations in Germany

year-on-year, in million of units



Sources: VDA, Euler Hermes forecasts

Chart 18: Exports in the automotive sector by destination in 2015
as %



Sources: ITC, Euler Hermes

mately, these amounts are still small as the market share of electric vehicles was still less than 0.4% in 2015.

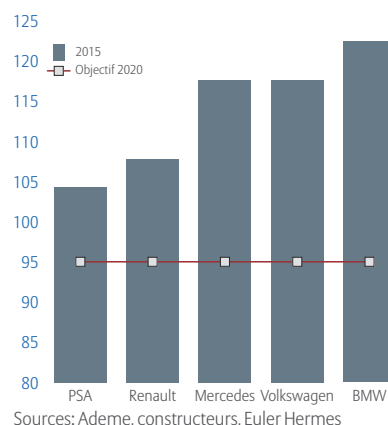
Germany is still by far the leading European automotive producer, with a volume of 5.8 million units, more than 80% exported

German carmakers' sales did not really suffer from the Volkswagen scandal, but the German automotive industry has nevertheless changed policy regarding emission control. The CO2 emission targets for 2020 will be hard to achieve, but the rapid development of rechargeable hybrid engines (necessary to reduce the pollution level of powerful saloons and SUVs) and numerous EV projects should make it possible to obtain this "green" label.

The United Kingdom ranks second, after the United States, with EUR 29 billion exported, out of 220 billion for the automotive sector

The United Kingdom's automotive imports represent only EUR 4.4 billion. Germany appears potentially very sensitive to the consequences of Brexit. Although the premium segment should be able to raise its prices without any problem, a recession would probably affect the export market drivers in 2017. ■

Chart 19: Average CO2 emissions per carmaker in 2015 and 2020 target



Sources: Ademe, constructeurs, Euler Hermes



© Image car-916561 (Pixabay under Creative Commons CCO, Public Domain)

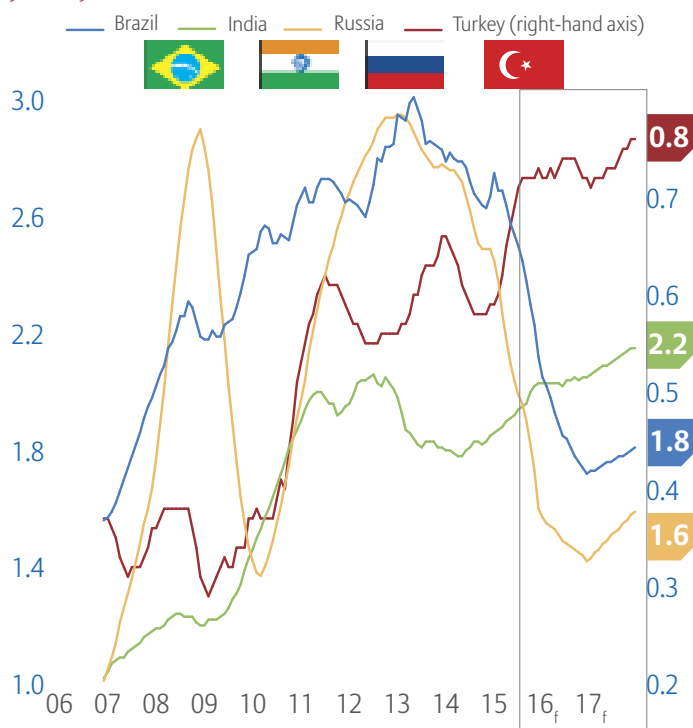
The BRITs

(Brazil, Russia, India, Turkey)

Disappoint

-19%
in Brazil and
-11%
in Russia in 2016

Chart 20: Growth in the number of new car registrations, Brazil, Russia, India and Turkey
year-on-year, in million of units



Sources: OSD, Euler Hermes forecasts

Brazil and Russia at the bottom of the trough

The dramatic fall of the Brazilian and Russian markets has been surprising: new car registrations have been halved in less than four years. In Brazil, following a 24% decline in 2015, we expect a further 19% decline in sales in 2016 and a slight rebound in 2017 by 5%. In Russia, the collapse (36% sales decline in 2015) is expected to be milder in 2016, at -11%, with a 12% growth recovery in 2017. These two erratic markets remain strategic for the carmakers, which see long-term growth prospects there. Financial strength and manufacturing flexibility are necessary to adapt to such volatility.

India and Turkey on engine braking

India and Turkey are facing a severe slowdown, with sales practically stable in 2016. India will post only 1% growth in new car registrations, after 10% growth in 2015 and before picking up to 5% in 2017. Despite its population of more than one billion inhabitants, only two million vehicles are sold per year. The carmakers are trying to boost growth in this market with numerous ultra-low-cost vehicle offerings. And yet, a still-low household purchasing power and limited road infrastructure suggest that India will not take over from China within the next several years. In Turkey too, 2016 will be marked by a slight 1% contraction in sales. Recent events such as the failed military coup attempt are not

conducive to a rapid pickup in sales. The trend remains positive and we believe that the market could recover to +7% in 2017. Like India, Turkey still remains a small market, of around 700,000 sales, but with high potential in the medium term. ■

+1%
in India and
-1%
in Turkey in 2016



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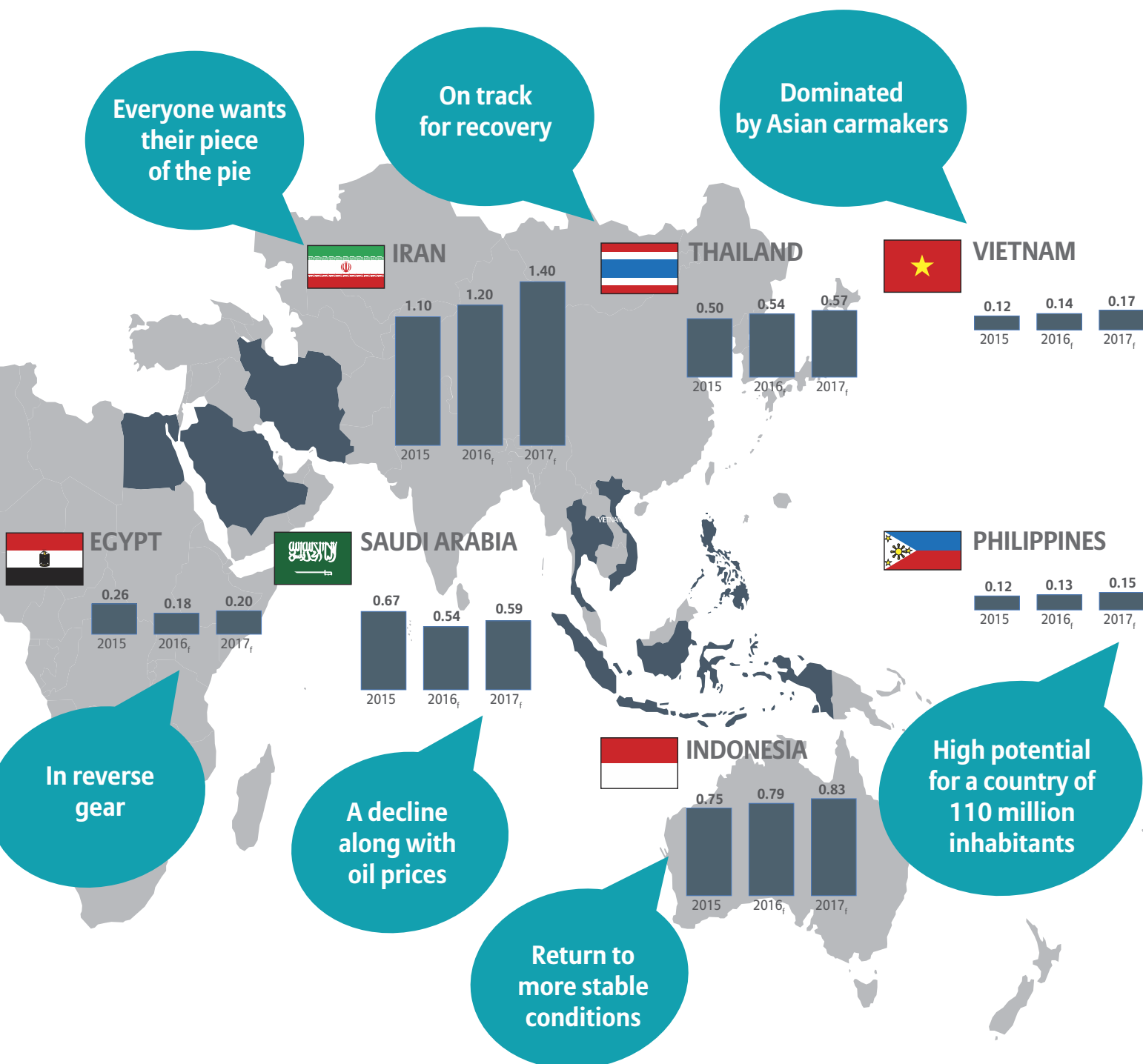
New
car markets
for
2016

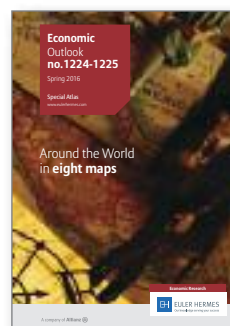
After Iran, **which emerging market** will reach one million new car registrations?

SECTOR RESEARCH TEAM



Sources: new car registrations (millions of units) OICA annual data, Euler Hermes forecasts





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