The global automotive market
Back on four wheels
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LUDOVIC SUBRAN

Amid geopolitical crises, confidence shocks, and false starts for growth, the disarray seems to be undermining the timid recoveries in most economies since the start of the year. And yet the automotive market seems to be getting its color back. When we look at global production, it seems the crisis has (finally) been erased and auto makers are returning to pre-2009 annual growth rates of around +4%. Also, the presaged end of the car has not eventuated. Despite an apparent social preference for usage over ownership, the emergence – although slowed – of middle classes continues to fuel car sales. After all, with a little more wealth people always do the same thing, and this since the industrial revolution. First, they eat better, then they buy a first or replacement TV, then a washing machine, a mobile phone, and eventually, with a little more money (and often a loan), we buy our first car (or trade in the old one) before thinking of buying a house. This rather simple – but no less true – summary of the wealth effect (which does not take into account the wellbeing effect associated with a car, etc.) shows, if needed, that the health of the automotive market remains an important factor in understanding the growth dynamics of a given country.

Looking at ten or so markets, including the United States, Europe, and the BRICS, the opportunities and economic risks facing these countries are quite clear. With tumbling markets in Thailand, Brazil, Russia, and Argentina, poor profitability among European players and excessive profitability in the Chinese market, the automotive sector corroborates the broad macroeconomic trends and provides a glimpse of what is to come, which is actually quite positive. In fact, looking at market potential, we see that the reindustrialization of the United Kingdom and the United States is being confirmed by the return of automotive production, albeit partial; that Spain, France, and Germany are battling to save the automotive sector for the political symbolism it entails, and that Italy and Belgium are continuing to suffer. We also see that Japan is doing wonders in its automotive market thanks to an aggressive economic policy, and that the Chinese market needs to consolidate and revise its pricing to shift up a gear. There is both good news and more to be done, while the Paris Motor Show in a few weeks will continue to pique our imagination between innovation, design, and hedonism.
The global automotive market
Back on four wheels

Growth in global automotive production is likely to remain at around +4% per year in 2014 and 2015, with an increase in production in China, India, and Mexico at the expense of Europe. Production is even expected to exceed 100 million vehicles by 2017. The major component manufacturers, which are essential for auto makers, have relocated to follow production and register healthy levels of profitability.
On the other hand, car sales by market reflect the economic difficulties facing various countries: the recovery is sluggish in Europe; in the United States it is more pronounced, but “jobless”; in Japan it is underpinned by public policies; in emerging countries it is lagging behind, despite high expectations. Euler Hermes’ forecasts the following outlook:

1 > **China**. The market is soaring (+10% in 2014 and +8% in 2015) but is perhaps becoming too profitable: selling prices will have to fall to maintain this pace.

2 > **United States**. The market has finally returned to its pre-crisis sales level, with a -20% reduction in the workforce and renewed profitability. We expect the market to grow +4% in 2014 and +3% in 2015, i.e. 17 million units sold.

3 > **Japan**. Despite its accommodating monetary policy and flagrant protectionism (94% of cars sold are Japanese), the VAT hike is expected to dent sales by -5% in 2014 and -2% in 2015.

4 > **Europe**. The automotive market is expected to recover by +5% in 2014 and 2015, but is still a long way from its pre-crisis level. The cannibalism among European auto makers continues to rage, eating away at margins already suffering from overcapacity.

- **France**: the market is showing early signs of a recovery, and sales are expected to grow +3% in 2015, but production, which continues to move offshore and is positioned mainly in entry-level products, has more than halved since 2005.
- **Italy**: the market is still depressed (sales are expected to come in at 1.3 million units, i.e. half their pre-crisis level) and production capacity continues to be underutilized with no hope of a rapid turnaround.
- **Germany**: auto makers are seeking to absorb the increase in operating costs and investments via efficiency gains and internal synergies. The
market is expected to grow +3% in 2014 and 2015.

- **Spain**: automotive production is expected to grow +10% and contribute strongly to the country’s trade surplus (EUR 12.5 billion in 2013) after the wage adjustments and the increase in working hours. The market, although at half its pre-crisis level, is set to register an increase of +10% in 2014, bolstered by scrappage incentives.

- **United Kingdom**: the pre-crisis level of registrations, at 2.4 million units, has been regained, and the market is expected to grow +10%.

- **Belgium**: The market should remain stable while production faces a chronic crisis (halved by the crisis) and there is no prospect for growth.

5 > New players. The hoped-for El Dorado in emerging automotive markets has been undermined by the series of economic and political crises. For 2014, we expect registrations to fall -10% in Brazil, grow a meager +2.5% in India, and contract -14% in Russia. A few new markets such as Saudi Arabia, Turkey, and Malaysia are stepping forth, but as Thailand and Argentina have shown, economic and political risks have a direct impact on the automotive market.

### Global car production has regained cruising speed

**The global market has returned to a medium-term growth rate of +4% per year** and production is set to exceed 100 million vehicles (passenger cars and commercial vehicles) by 2017. While it is well known that the industrialized countries, such as the United States (ownership rate of 80%), Europe (ownership rate of more than 55%), and Japan (ownership rate of 60%), do not offer great growth potential, they remain renewal markets. With lower and, in some cases, very low ownership rates in places like China (5%), India (2%) or Africa, the rest of the world offers obvious long-term growth prospects. However, new, ever-cheaper and harder-wearing products will have to be invented to adapt to still-limited infrastructures and services; manufacturers are working on it.

**Production has already started to switch to new economies, as illustrated by the major shifts between 2007 and 2013**

The playing field has been overturned, with strong growth in production in some countries, chief among which China (+149%) and India (+72%), and a steep decline in industrialized countries, with contractions of -42% in France and -49% in Italy. Despite the decrease in sales in Europe, production of entry-level models has...
The big winners?
Car-part manufacturers, with an operating margin of 7.5% in 2015

The major parts manufacturers have managed to gain from this growth in auto makers’ production movements by massively restructuring in regions in decline and investing in growth regions.

Change in activity and profitability for car-part manufacturers

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Change (1)</td>
<td>8.6%</td>
<td>12.0%</td>
<td>-17.8%</td>
<td>34.7%</td>
<td>16.9%</td>
<td>7.0%</td>
<td>3.3%</td>
<td>5.0%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>Operating Profit Rate (2)</td>
<td>5.7%</td>
<td>0.7%</td>
<td>-0.5%</td>
<td>7.0%</td>
<td>7.4%</td>
<td>7.2%</td>
<td>7.3%</td>
<td>7.4%</td>
<td>7.5%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Continental, Faurecia, Valeo, Autoliv, Plastic Omnium, consensus, Euler Hermes forecasts
(1) Change in revenue compared with the previous year (2) Operating profit rate = profit from operations over revenue

European groups, which have posted steady growth in activity and profits, provide the most emblematic example of this globalization among car-part makers and of the end of their reliance on their home market. Their operating margin has been much higher since 2010 than in the early 2000s, thanks to greater negotiating power with auto makers. We expect stable growth in this margin (of around 0.1pp per year) on expected sales growth of 6% per year.

75% of global sales concentrated in 4 regions

World sales by geographical region

- 27% Others
- 23% China
- 17% India
- 15% Russia
- 12% Brazil
- 8% Japan
- 4% United States
- 4% Europe
- 2% Others

World sales by geographical region

Sources: OICA, Euler Hermes

been shifted to low-cost countries such as Slovakia, Slovenia, the Czech Republic, or Poland, to preserve a decent level of profitability. There has been strong growth in production notably in Mexico, which in a few years has become the production factory for the United States; investment flows in Mexico are massive and many projects are afoot, while domestic sales are stagnant. Last, new zones of production are emerging in Southeast Asia and North Africa.

For car sales, the economic crisis is not yet out of rear view

Four main markets dominate global car sales: China, the United States, Europe, and Japan. China has been the largest market since 2009, and its lead over the United States is growing with each passing day. Behind these four dominant markets in terms of passenger car sales, emerging markets are yet to impose themselves in terms of sales volumes. The hoped-for El Dorado is struggling to materialize as economic and political crises slow household vehicle ownership rates.

Car sales by market reflect the economic difficulties facing various countries: the recovery is sluggish in Europe; in the United States it is more pronounced, but “jobless”; in Japan it is underpinned by public policies; in emerging countries it is lagging behind, despite high expectations. Car registrations are also a major indicator of a country’s economic health. This report sheds light on their expected trends.
Overall risk in the automotive sector 2014

Source: Euler Hermes, as of July 16, 2014
risks in 2014
**CHINA**

**Getting hot under the hood**

With growth of +10% in 2014 and +8% expected for 2015, the Chinese market is extending its lead after having surpassed overtaken the US market in 2009. At nearly 20 million units sold in 2014, it now accounts for 27% of global sales. Moreover, with an ownership rate of close to 5%, it offers all auto makers very attractive prospects for long-term growth of around +8% to +10% per year. It is a vehicle market whose role is growing: with 21 million units sold in 2015, it will be 25% larger than the US market.

The market remains dominated by Western manufacturers via joint ventures with local manufacturers

The market shares of Chinese brands, which still lack brand power, have been declining steadily.

The difficulties of Chinese brands

Although the China Association of Automobile Manufacturers (CAAM) lists more than 80 private and state-owned automotive makers, only around 15 of them produce more than 100,000 vehicles per year. After the seven state-owned companies and their joint ventures, a few private players appear. The three largest private manufacturers are Geely (owner of Volvo Cars), Great Wall, and BYD. They produce less than 1 million units, which remains very little compared with international manufacturers. Altogether, there are 96 Chinese brands, which produce 524 different models, whereas in the United States there are only 45 brands and 294 different models. This atomization generates low levels of production per manufacturer and therefore low margins that impede investment in R&D. Chinese manufacturers invest 2% of their sales in R&D, while the corresponding figure for their Western counterparts is between 4% and 6%. The result is an eroding global sales performance year after year.

The market is very (too?) profitable

For the Volkswagen group for example, China accounts for 30% of sales but nearly 50% of earnings. Selling prices may be much higher there than elsewhere, to the benefit of manufacturers with a sound local footing, but for how long? Audi and Jaguar Land Rover are revising their pricing strategy in China, in response to an investigation carried out by the National Deve-

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**Trend in registrations**

12 rolling months (in millions of units)

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Sources: national statistics, Euler Hermes forecasts

China became the world’s largest market in 2009, surpassing the United States
Registrations by auto maker origin

- France: 3.5%
- South Korea: 9%
- United States: 12.5%
- China: 38.5%
- Japan: 16.5%
- Germany: 20%

Sources: national statistics, Euler Hermes

61.5% of market shares held by Western manufacturers in China

Development and Reform Commission seeking to determine whether foreign auto makers, taking advantage of their majority penetration, were not overcharging for their products. Pre-empting the results of this investigation, Audi announced it would reduce the prices of some of its spare parts (engines, gearboxes, and body pieces) by 16% to 38%, by increasing the amount of local production for these parts and by attaining economies of scale. Jaguar Land Rover will reduce prices for three of its models: the Range Rover 5.0 V8, the Range Rover Sport, and the Jaguar Type F Cabriolet. Prices will be reduced by CNY 200,000 (EUR 24,000) on average. Last, to ensure sustained growth, manufacturers will need to look for new consumers in rural China, with less purchasing power, and therefore offer a tailored – i.e. cheaper – product.
The US market represents 23% of global sales of passenger vehicles (PV) and light commercial vehicles (LCV), or 16.5 million units. It has become very profitable once again, after the deep restructurings carried out in 2009-2010. The US automotive industry has thus regained the competitiveness it had previously lost: for an unchanged level of production, the workforce has been reduced by -20% and many production sites have been shut down. Armed with a renewed and completely restructured product range, US groups have returned to being profitable, although for General Motors 2014 will be largely tarnished by massive callbacks of its vehicles (nearly 25 million) for safety reasons.

The US market remains very lucrative, dominated by large pickups and SUVs (the latter account for half of registrations). Ford generates almost all its profits in the United States, and is the market leader with its Ford F-series pickup (the case for many years now). Nevertheless, this market does not have high growth potential, with an ownership rate in excess of 80%. We expect growth of +4% in 2014 followed by +3% in 2015. This would put the number of registrations at around 17 million units in 2015. It is a renewal market dominated by US and Japanese brands, which represent more than 83% of registrations.

2014 has been marked by big movements in exchange rates, affecting both consolidated sales and profitability. In 2014, the average profitability of US car manufacturers is expected to decrease by -1pp to 2.7% before returning to 3.5% in 2015. There are ongoing efforts to turn around their European operations, which will record losses yet again this year. The South American markets, in particular the very downbeat Brazilian market, are also hitting profits. Last, 2014 will be tough for General Motors due to the scale of callbacks following a number of accidents, some fatal, which will impose considerable extra costs and provisions.

The workforce has been reduced by 20%

### Market share by origin of auto makers in the United States in %

<table>
<thead>
<tr>
<th>Country</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Japan</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>South Korea</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Germany</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Sources: national statistics, Euler Hermes estimate

### Change in activity and profitability

<table>
<thead>
<tr>
<th>United States</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>8.3%</td>
<td>0.3%</td>
<td>5.8%</td>
<td>-1.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Change (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Profit Rate (2)</td>
<td>5.3%</td>
<td>0.9%</td>
<td>3.7%</td>
<td>2.7%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

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

### Production and workforce in the United States annual average

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>12 million</td>
<td>936,000</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>1,000,000</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>1,100,000</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>1,200,000</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>1,300,000</td>
</tr>
</tbody>
</table>

Sources: national statistics, Euler Hermes forecasts
Japan has cumbersome technical barriers in place that limit the presence of Western manufacturers. As a result, foreign brands account for only 6% of registrations. Its market is quite closed, to the benefit of Japanese auto makers and their margins.

In terms of registrations, the impact of the VAT hike (from 5% to 8%) will be seen in the second half of 2014, and to a lesser degree in 2015

Registrations are expected to fall in the second half of 2014, for a -5% annual contraction in the volume of sales, followed by another although smaller decrease of -2% in 2015 (the base effect of H1 2014 on H1 2015 will be negative).

Japan is, however, a large producer country, where monetary policy and exchange rates have a big impact on producers’ profitability

Growth in volumes will be weaker this year (+2%) due to the slowdown in the domestic market, but will pick up to +4% in 2015. Almost half of production is exported, in particular to the United States (33%), Asia and the Middle East (26%), and Europe (18%), with the rest shared among South America, Africa, and Oceania.

The three largest manufacturers, namely Toyota, Honda, and Nissan, regained a healthy level of profitability at +7.3% in 2014, thanks to their solid presence in the highly profitable US market, but also in China and worldwide.

They also benefit from a highly protected local market, where price competition is, accordingly, limited, and from a particularly aggressive monetary policy. Since the end of 2012, the yen has depreciated nearly -30% against the euro and -20% against the dollar, which gives them an automatic gain in competitiveness and therefore in profitability. Another source of profitability for the three main Japanese manufacturers is their premium subsidiaries – Lexus for Toyota, Infiniti for Nissan, and Acura for Honda – which have been successful in the US market and are beginning to penetrate the Chinese market. These subsidiaries are still struggling to gain a foothold in Europe, however, in the face of German competition.

Change in activity and profitability

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014e</th>
<th>2015f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>5.7%</td>
<td>-2.6%</td>
<td>14.6%</td>
<td>15.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Operating Profit Rate (2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>4.0%</td>
<td>2.9%</td>
<td>5.5%</td>
<td>7.3%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

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
EUROPE

A market at several different speeds

Excess capacity is estimated at 6 millions units

The European market represents more than 17% of global sales, with 12.9 million units sold. It is expected to grow by +5% in 2014 and 2015.

It is one of the most crowded markets, where considerable production overcapacity makes profitability uncertain. Despite a few site shutdowns, mainly at Ford, Opel, and PSA, excess capacity is still estimated at nearly 6 million units. As a result, profitability remains very low or, in the case of some volume auto makers, negative.

The automotive industry has a long way to go to complete its industrial revolution, which limits profitability on European soil.

Despite the recovery in sales that began in 2014 and which looks set to continue through 2015, sales will remain 15% below their pre-crisis levels.

While the United Kingdom has regained its pre-crisis level of registrations of 2.4 million units, up +10%, the crisis continues to cast a long shadow over a number of Eastern European countries, such as Romania, where sales of new cars are six times lower than in 2007; Hungary, where they are almost three times lower; and Bulgaria, where they have halved. Although these three markets are extremely small (only 1% of the European market), they are symptomatic of the intensity of the crisis from which the European automotive industry is yet to emerge. That said, the recovery in these markets, with growth rates in excess of +10%, also shows that the worst appears to be well behind us.

Price competition is eroding the margins of operators, which have had to reduce their costs.

European volume auto makers have done this, and now it is the Germans’ turn.
In 2011, Spain took the decision to increase the number of working hours and to adjust wages downwards to pave the way for an upturn in production and hiring: production is growing again at +10% in 2014 (1.9 million units) and we expect +8% in 2015 (at close to 2.05 million units). The sector has become a large contributor to the country’s trade surplus, which reached EUR 12.5 billion in 2013.

The domestic market is still being stimulated by aid programs, including a EUR 2,000 scrap-page premium on purchases of new cars. Despite growth in sales of +10% in 2014, at 800,000 units, sales remain at half their pre-crisis level. With no support in 2015, the market can be expected to stabilize at best.

Italy has taken action but the main problem is the ever-decreasing supply produced by Italian auto makers, which have lost considerable market shares in Europe. Italy’s five factories are markedly underutilized, although production looks set to stabilize at around 400,000 vehicles in 2014, up +3%. We do not see any tangible recovery in the short term, with growth of only +4% in 2015 to 416,000 units. The new production plan announced by FIAT’s management, for, in particular, Alfa Romeo (targeted annual sales volume of 400,000 in 2018 compared with 74,000 at present) and Maserati brands will take time before new models are launched.

In 2014, Spanish production is growing again at +10%
France: In search of a higher gear

Germany: Solid!

In 2013-2014, France launched plans to improve its competitiveness and regain some of the production volumes it had lost. It is, however, unlikely – even in the medium term – to regain its 2005-2006 volumes as it is no longer profitable to produce “small models”, in which the French are market leaders, in Western Europe. Nevertheless, we can expect a slight rebound in production, in line with the market and the arrival of production of a few Nissan models and the ramping-up of new models. Compared with the low reached in December 2013, we can expect a production volume of 1.4 million units in 2014 (+12%) and 1.5 million units in 2015 (+7%). This level remains extremely low compared with the more than 3 million units prior to the crisis and, moreover, raises the issue of excess production capacity.

Domestic demand is showing faint signs of recovery. We expect growth of +3% in 2014 and +4% in 2015, with sales volumes of 1.84 and 1.92 million units, respectively, which is less than the pre-crisis 2.1 million units, but incomparable with the collapse in markets in Southern Europe.

Germany has maintained a high level of production. It will grow a further +6% in 2014 and nearly +4% in 2015, but its manufacturers are also facing rising costs. Volkswagen and Mercedes recently announced plans to restructure. Economies of scale and synergies are expected. Volkswagen, for instance, has planned for EUR 5 billion in savings by 2017, a long way from the flattering results reported by the group thanks to profits at Audi, its luxury brand, and those generated in China. As a result, Volkswagen’s operating margin fell to 1.8% of revenue in the first quarter of 2014 (compared with 2.4% one year earlier) and remains far below the stated 6% target. This is not an isolated case: although positioned more upmarket, Mercedes is expected to step up its cost-reduction plan, from EUR 2 billion to EUR 3.5 billion per year.

Sales in Germany are expected to stabilize at 3 million units in 2014, i.e. growth of only +3%. With growth of +3% again in 2015, the market will near 3.1 million units sold, which would still be around 10% below its medium-term average. The scrappage scheme in 2009-2010 boosted registrations by nearly 800,000 additional vehicles, which is yet to be totally absorbed.

The profitability gap between German and French auto makers remains wide

German manufacturers register rates of profitability in excess of 7%, whereas margins at their French counterparts are between 2% and 3%. The divergent performances of German and French auto makers stem from several factors.

1> 1- Prices. The premium positioning of German auto makers, including the Volkswagen group with its upmarket brands such as Audi and Porsche, but also Bentley, Lamborghini, and Bugatti.
2> 2- Emerging markets. Premium brands are appreciated the world over. A long time ago the German auto makers set out to conquer the world’s largest markets and, as a result, they are gaining from the sector’s global growth.
3> 3- Investments. The high level of profitability makes it possible to increase investments, whether to expand geographically or to develop products and ranges, and production chains and technology. Nevertheless, French auto makers also have strengths, in particular the association effect (success of the Renault-Nissan alliance, partnership signed with Daimler) and the commercial and financial success of low-cost brand Dacia. The premium positioning of PSA’s DS brand and its partnership with Chinese manufacturer Dongfeng could accelerate the group’s development in China.

Change in activity and profitability

<table>
<thead>
<tr>
<th>France</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014e</th>
<th>2015p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Change (1)</td>
<td>6.4%</td>
<td>-4.4%</td>
<td>-1.8%</td>
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<td>6.9%</td>
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<tr>
<td>Operating Profit Rate (2)</td>
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<td>2.3%</td>
<td>3.3%</td>
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<table>
<thead>
<tr>
<th>Germany</th>
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<th>2013</th>
<th>2014e</th>
<th>2015p</th>
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<td>7.1%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Sources: companies, PSA and Renault in France, Volkswagen, Daimler, and BMW in Germany, consensus, Euler Hermes forecasts

(1) Change in revenue compared with the previous year (2) Operating profit rate = profit from operations over revenue
The United Kingdom has regained its pre-crisis levels
In terms of production, the market will reach around 1.6 million passenger vehicles in 2015, i.e. the level produced in 2005, after a very tough period during which historic manufacturers disappeared. Who still remembers British group Leyland, which comprised the Jaguar, Rover and Land Rover, Austin Morris, and Wolseley brands? In its day it accounted for 40% of the market. Today the factories are labelled Nissan, Honda, Toyota, Ford, Vauxhall (subsidiary of General Motors), Mini (subsidiary of BMW), and Jaguar Land Rover (subsidiary of Indian conglomerate Tata). Nevertheless, thanks to the flexibility of its labor market and to its increasingly attractive corporate tax regime, the United Kingdom has once again become a true producer of cars, with annual production growth of around +3%.

It also benefits from a buoyant domestic demand, with the market forecast to grow +8% in 2014 and a further +3% in 2015, to 2.5 million units. It is one of the few markets to have surpassed, albeit just, its pre-crisis level.

The European automotive crisis has taken a heavy toll on Belgium with the closure of the Opel site in Antwerp in 2010 and the scheduled shutdown of Ford’s site in Genk by the end of 2014. After 900,000 passenger vehicles were produced in 2006, production collapsed to less than 450,000 units in 2013. Its marked decline continues. 2015 production is thus expected to fall below 400,000 units. Without a national auto maker, Belgium has been a loser in trade-offs between location and production costs. Its domestic demand has stabilized on the whole under 500,000 units. This should also be the case for 2014 and 2015, which, ultimately, makes Belgium a small European market.
While India seems to be gradually awakening from its slumber, sales volumes remain confined to 1.8 million units, in a population of more than 1 billion inhabitants. Its market remains ten times smaller than the Chinese market, with a very low ownership rate of around 2%. The weak purchasing power and infrastructure deficiencies continue to hold back strong growth, although the long-term potential remains. For 2014 we expect weak growth of around +2.5%. A new type of ultra-low-cost vehicle will need to be developed, in keeping with the country’s needs and means.

The Brazilian market is more of a concern. Whereas it was thought it would be the money-spinner of South America, the country has been in recession since the spring of 2013, and its auto market looks set to register an annual contraction of around -10% in 2014 followed by a slight recovery of +3% in 2015. After having reached 3 million units, sales are expected to labor to 2.5 million at end-2014. A number of manufacturers have increased their production capacity in the country and therefore currently face a shortfall in profitability in this market.

Finally, the Russian market remains chaotic, which has hit local investment. While the government wants to develop the local automotive industry and has put in place import taxes and requirements for auto makers to increase their local content rate, the recent geopolitical developments are jeopardizing this industrialization. Here again, a number of manufacturers have registered losses, such as local leader Avtovaz (Lada brand), a subsidiary of Renault-Nissan. In a context of economic crisis (including an interest rate at 12%) and under the effect of the sanctions announced, we expect a slump of -14% in 2014, after a fall of nearly -6% in 2013. Sales are expected to begin to recover by around +5% over the course of 2015 to 2.5 million units, which is still a long way from their 2013 level of nearly 3 million units. However, there is a need to consider the effects of financial support for the sector and of a possible border closure to vehicle imports depending on the severity of the sanctions (27% of sales in the first half of 2014 were imported vehicles). This would mainly affect the premium auto makers that do not have local production sites. Last, note the introduction on September 1 2014 of a scrappage premium (EUR 825 per vehicle) until 31 December 2014 to curb the market’s fall and perhaps reduce the stocks of manufacturers, which have all announced production cutbacks.
The large automotive groups will have to turn to new emerging countries over the next few years if they want to sustain their global growth. Some countries offer real growth opportunities, albeit still modest in size. Not too much should be expected for Western auto makers, as these countries could be firmly in the sights of Chinese manufacturers whose development in mature markets still seems fraught with difficulty owing to the technical and environment constraints imposed in Europe and the United States. Thailand, Indonesia, Malaysia, Turkey, and Saudi Arabia form the last opportunities for growth in a world where markets are either mature or underdeveloped and where the key positions have already been taken. But caution is called for, as national markets can fluctuate wildly, as illustrated by the cases of Thailand and Argentina.

### The Thai market appeared to offer bright prospects, albeit bolstered by scrappage incentives in 2012 and early 2013 after the 2011 floods in the country. However, the market has fallen drastically under the effect of the political crisis since late 2013 and the military coup. The still-uncertain situation points to a bad 2014, with a possible -36% fall in sales to 410,000 units, followed by a rebound of around +10% in 2015, which would return the market to its 2005 level. Pending better days, Thailand, which had also become a production zone for Southeast Asia, has seen its activity contract sharply and its investment prospects dry up.

### Argentina: A fall in sales in 2014 (-30%) followed by the beginnings of a recovery (+10%) in 2015

Under the weight of the economic and financial crisis afflicting Argentina, sales have collapsed since January 2014 following the 18% devaluation of the Argentine peso, leading to a spike in prices and the introduction of a 50% tax on purchases of high-end vehicles. To boost sales and production, in June the government launched a plan to facilitate car purchases on credit, which national association ADEFA hopes will have an impact towards the end of the year. Nevertheless, 2014 will be marked by a fall of -30%, followed by an incipient recovery in 2015, up +10%.

In addition to the collapse in its domestic market, Argentina is also affected by difficulties in its largest export market: Brazil. The situation represents a direct threat for French auto makers, which have a more than 25% share of the Argentine automotive market. Other manufacturers, such as Volkswagen, FIAT, Ford, GM, and Toyota are also exposed to an economic downturn in this country.
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