

News release

2010: The dawn of a new auto decade, says PricewaterhouseCoopers

At the start of 2009, many feared a total automotive meltdown as global economies stalled and the financial system faced collapse. However, various forms of government intervention engineered a relatively soft-landing for the industry given the turbulence. In the case of China, the auto sector not only averted crisis, but posted extraordinary growth.

Calum MacRae, Auto expert, PricewaterhouseCoopers LLP said:

“2009 will forever be remembered as one of the most turbulent and challenging years in the global automotive industry’s 100+ year existence. Aside from difficult lessons in financial and operational restructuring, the past year’s travails offered a valuable commentary about the relationship between national economic well-being and automotive industry performance.

“Because of the industry’s powerful economic multiplier effect, the auto manufacturing sector is considered by many as simply too important to be allowed to fail – especially during periods of recession. In Europe, for example, it is estimated that 2 million are employed directly in the industry, with 12 million more employed indirectly.”

So what is in store for 2010? North America will likely exit the recession in a better competitive state than other mature regions due to significant restructuring and capacity reductions made by suppliers and car manufacturers, rather than relying heavily on artificial market stimulus (\$3 billion CARS program notwithstanding).

Scrappage

Conversely, the European sector’s dependence on scrappage schemes during 2009 has preserved an abundance of capacity. Autofacts currently estimates that 6.5 million units of excess capacity exist in the EU alone, suggesting that the region’s challenge to competitively align supply and demand will likely persist due to the existence of many domiciled automakers and national champions.

Given China’s performance in 2009, industry observers could be excused for concluding that the market was temporarily stoked by the central government’s economic stimulus package, which supported a year on year sales surge of 50%. Not so. According to Chinese Ministry of Commerce officials, scrappage incentives are set to be a long-term strategic input into the industry’s development.

Looking ahead

North America

As the curtain drops on a year that was historic for all the wrong reasons – lowest US light vehicle sales since 1982 coupled with the lowest US light vehicle production since the 1940s – 2010 holds considerable promise for the embattled region. Dramatic industry restructuring throughout every level of the value chain has delivered most surviving entities to a leaner and more agile state. Further, with the regional economy reportedly exiting recession in the waning months of 2009 and inventory correction underway, the outlook for North America sales turns positive in 2010. Autodata forecasts a 10% improvement to 13.9 million units (11.4m in the US), forming the basis for Autodata's 2010 North America assembly forecast of 10.4 million units.

European Union

PwC Autodata expects overall EU light vehicle demand to fall by 900,000 units in 2010, driven by a large decline in German car demand. The anticipated decline is not greater due to - in line with economic recovery - growth in non-scrappage EU markets and in light commercial vehicle (LCV) demand, which has been very hard hit over the past two years.

East Europe

East Europe suffered an estimated fall in output of 47.4% in 2009 over 2008. 2010 is also likely to be a challenging year, but there should be some improvement in sales and assembly volumes. Similarly, the recovery from recession of major European export markets will have a positive impact on countries that are major vehicle exporters, although this is likely to be tempered by the 'pull-forward' effects of scrappage schemes in major European markets. With EU LCV sales scheduled to experience some recovery, the trend is positive for East European OEMs exporting to the EU.

Developed Asia-Pacific: Japan and Korea

In South Korea, local market incentives did their best to offset the effect of vehicle exports suffering a decline of 24%. The government's tax break incentives for vehicles registered prior to December 31st, 1999 served to boost the local market by some 16% to nearly 1.2 million units. With the tax break expiring at the end of 2009, the onus for the South Korean auto industry will be on a restoration of export volumes as global economic fortunes improve in 2010. Currently, Autodata expects improved export prospects to result in a 5.2% increase in South Korean light vehicle assembly to 3.4 million in 2010, against the 10.6% decline to 3.3 million posted in 2009.

Japan's industry has suffered similarly to Korea's – weak export volumes compounding poor domestic sales performance.

Developing Asia-Pacific: China and India

Autodata continues to take an optimistic view on China's prospects due to the bold initiatives outlined by the Beijing government. Although the sales tax for sub-1.6L vehicles has been revised upward to 7.5% from 5% (prior to stimulus, the rate was 10%), the widening of the range of scrappage incentives to RMB5,000-18,000 from RMB3,000-6,000 is a significant step that should help buyers continue to support market growth. The incentives, allied with continuing strong economic performance, should enable China's GDP per capita to breach the US\$5,000 barrier in 2012. That barrier traditionally signals a strong upturn in a country's light vehicle sales, thus in 2010, Autodata anticipates a 10% sales growth rate, down from 2009's astonishing 48%.

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India appears to be more circumspect in promoting its vehicle industry and bolstering auto market growth. The government has indicated that its economic stimulus will be wound down in 2010. Already, monetary policy has been tightened to curb increasing inflation. Nevertheless, India's automotive sector prospects look extremely positive as GDP growth should be maintained in the 6-7% range.

South America

The success of Brazilian tax incentives, combined with a strengthening economy helped annual light vehicle sales to reach 3 million units in 2009, a record-breaking 12.7% improvement over 2008. Support for Brazil's domestic market has been crucial to offset a 43% drop in export volume, but the net effect on light vehicle assembly puts 2009 marginally ahead of 2008's previous high point. Looking toward 2010, a confluence of drivers suggests that Brazil's automotive industry will continue to break records. As the export situation improves next year and Brazil's economy posts positive GDP growth, Autofacts forecasts that assembly will increase by a healthy 7.8%.

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The information in this news release comes from the **Autofacts Automotive Institute**, a team of industry specialists inside the firm's Global Automotive Practice, dedicated to the ongoing analysis of sector trends.

Visit www.autofacts.com (PwC Automotive Institute) for more information and to order the 2009 Automotive Review.

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