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Quarterly Forecast Update: Global Outlook

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The automotive sector is troubled more than most in difficult economic times – a new vehicle is the ultimate discretionary purchase and the second largest purchase a household makes following their home and consumers are deferring purchases until confidence is restored. In addition, the absence of available credit is now severely hindering affordability and involuntarily forcing consumers out of the market globally. After a very dispiriting end to 2008, many markets and automakers are expected to continue enduring a tumultuous path in 2009. We set out below our viewpoint and forecast of developments in light vehicle production within each of the world's key regions and markets.

North America:

In recent months, waning consumer confidence and spending, housing and equity market turmoil, and the credit crisis coupled with a weakening US economy, have coalesced to drive light vehicle sales to their lowest per capita level in nearly 50 years.

Diminished access to credit, combined with the stress caused by the current low sales volumes, are creating significant financial problems for the industry, particularly in the areas of inventory management, increasing supplier fragility, dealer floor plan financing, and higher defaults on consumer vehicle loans.

Industry sales volumes will likely fall to 11.6 million units in 2009, with the first quarter sales volumes reflective of the 10.3 million unit SAAR posted in the last quarter of 2008, with expected modest improvement as the year progresses. The commencement of aggressive reductions in Q1 output in 2009, down -38% compared with an already depressed Q1 2008 contributes to the forecasted precipitous decline in assembly to 10.5 million units.

Additionally, it is expected that sales will remain muted in the mid-term, peaking at between 15.5 million and 16.0 million units, as the era of "spent-up" demand --aggressive incentives, relaxed lending standards, and housing-led wealth accumulation, which had supported the market in recent years, comes to an end.

With the release of TARP funds from the US Treasury to GM, GMAC, and Chrysler, the risk of widespread sector destabilisation stemming from a "disorderly" bankruptcy has likely been mitigated. However, conditions of the bridge loan are aggressive and may still result in actions ranging from work stoppages, to product rationalisation, to capitulating a change in ownership.

Europe:

Before August, while some markets were struggling in Western Europe (mainly those that were facing a correction following a housing price asset bubble such as Ireland, Spain, Sweden and the UK) as a whole, car sales were continuing to plough their familiar 14-15 million unit furrow experienced over the past decade. However, once the effects of the credit crunch combined with increasing evidence of economic recession and mounting fears over job security, the knock-on effect on consumer confidence was dramatic and rapid, causing regional car sales to significantly decline.

Consequently, by November last year, Western Europe's seasonally adjusted annualised sales were down to 11.2 million. We believe that 2009 will turn out slightly better than this level, with sales just above 12 million. Nevertheless, this still represents a 12% fall from 2008's sales and a volume not seen since 1995 when Western Europe was emerging from the 1993 sales crash.

Whilst we expect some markets to start showing signs of recovery from late 2009 we do not expect to see a concerted European recovery until mid 2010. This demand outlook is expected to translate into an 11.8% decline in assembly to 15.6 million units in 2009.

Also clouding the demand picture is the CO₂ reduction mandate; uncertainty over future taxation policies of countries and OEMs' product responses to the legislation is adding to consumer uncertainty.

Meanwhile, Europe's fastest growing market – Russia – is also expected to be pressured in 2009. Our baseline forecast for Russia's light vehicle market assumes a 16% decline in sales to 2.4 million units in 2009, which should translate into broadly constant light vehicle production at 1.55 million units, due to increased substitution of imported

(Europe continued)

vehicles. Turkey, East Europe's 2nd biggest assembler, is also expected to suffer in 2009. While domestic market sales were off 14% in 2008 and likely to decline by a similar amount in 2009, the main forecast effect is from falling exports as 75% of assembly is exported.

South America: Brazil

Brazil, which accounted for over 75% of South American light vehicle production in 2008, posted very healthy sales growth for the first 9 months of 2008, with passenger car sales 22.4% ahead of 2007 after 10 months. However, sales slowed considerably in October and November, 13.2% and 25.7% respectively, as the impact of the global financial crisis spread to Brazil.

December sales rebounded relative to November (9.4% increase), though were still down 20% year-on-year following the government's release of US\$3.6 billion to state banks for auto loans and a reduction of sales taxes on vehicles and taxes on consumer loans.

However, with the tax incentive scheduled to end in March 2009, Q1 sales may prove to be an aberration as sales are pulled ahead from the remainder of the year. There are doubts as to the short-term prospects for the market, given the strength of sales in the past few years and fears that these sales may have been promoted by relaxed credit.

These concerns suggest that Brazil's market may experience a correction in 2009, with light vehicle output falling to 2.5 million – evaporating growth from 2007-08.

Asia-Pacific: Japan, South Korea & Australia:

The Japanese domestic automotive market, which has been declining steadily for the past several years, experienced an acceleration in the speed of this decline in the final quarter of 2008. To add to the problems arising in Japan's domestic market, exports to the US and EU also slowed due to the difficult market conditions.

Most Japanese automakers have responded by terminating contracts of temporary employees and scaling back production, with Toyota going announcing a sweeping closure of all plants in Japan for 11 days over February and March. Likewise, South Korea's domestic market is confronting the same scenario of declining domestic demand coupled with falling exports.

In the longer term, light vehicle assembly output in both Japan and South Korea is likely to continue to decline. This reflects the relocation of capacity to the US and other markets due to growing demand in those markets; this dynamic is reinforced, as far as South Korea is concerned, by Hyundai's move to relocate small car assembly to India.

Although the Holden Commodore retained its status as the highest selling vehicle in Australia in 2008, long-term segment trending suggests indigenously built large vehicles will cede share to smaller cars and crossovers, which are likely to be imported due to ongoing import tariff reductions in this million unit sales market.

Asia-Pacific: China, India & ASEAN:

China's 2008 domestic sales growth slowed to 10% compared to 23% in 2007. Beyond an already anticipated post-Olympic slowdown, the Chinese economy is being

negatively impacted by the global economic crisis – in November, total exports, a key indicator in the Chinese economy, declined for the first time in 7 years.

The Chinese government has announced an economic "stimulus package", but most of the aid is not new and has been assigned to reconstruction efforts in the regions affected by earthquakes in 2008. The package, therefore, is expected to do little to stimulate demand in the automotive sector, resulting in expected auto assembly growth of between 1 and 3%.

Like other markets, India is suffering from a lack of automotive financing as 75% of vehicle purchases are made with credit. Consequently, November's passenger vehicle sales declined by 27% compared with 2007, while sales of light commercial vehicles fell 33% and should remain subdued until credit access returns to prior levels.

While the Indian Reserve Bank has been using the monetary policy tools it has available, its efforts thus far have had no discernible effect on the economy due to the cautious lending policies being pursued by the financial institutions. Furthermore, with the Indian software and service industries to an extent reliant on the economic welfare of the EU and the US, the country has recently begun to feel the impact of weakening demand for such services.

Currently, it is expected that credit will become increasingly available as 2009 progresses, leading to a return to the trendline growth in automotive sales in late 2009/early 2010. The Indian assembly forecast has also been negatively impacted by the delayed production start-up of the Tata Nano and the likelihood of other low-cost programs being delayed by 6-12 months.

Going forward, Thailand's automotive sector is expected to diversify beyond pickup truck production. However, it should be noted that many automakers who had received government approval for their eco-car projects earlier this year, are now either delaying or rethinking their plans. Thailand's recent political turmoil is expected to dampen domestic sales yet again due to the uncertainty in the markets. But, since exports account for a majority of Thai production volumes, the impact of the political environment is not expected to be ruinous.

Conclusion:

In turbulent times, where survival of even the largest players is at stake, there is only one thing that is certain: all parties, from automakers to suppliers to dealers, will have to undertake aggressive restructuring to adapt to the new realities.

The winners will be those who manage the downturn best, controlling cash and eliminating unnecessary expenditures to weather the current economic downdraft.

At the same time, auto companies have to prepare for the upturn in the industry, which is expected in 2010. Continuing investment in new products will be required, together with investment in appropriate new capacity. Successful automotive leadership will constantly search for avenues to increase revenue streams and preserve their place in the automotive industry.

Detailed Forecast Data Tables

Region	2007	2008	2009	2010	2011	2012	Growth Analytics (2007-2012)				
							Unit Diff.	% Chg	CAGR	CTG %	Rank [†]
1 Asia-Pacific	26,662,975	27,174,528	25,348,537	27,475,532	30,418,683	33,144,522	6,481,547	24.3%	4.4%	79.9%	1
2 European Union	18,803,012	17,624,046	15,547,496	16,142,118	17,080,908	17,887,678	-915,334	-4.9%	-1.0%	-11.3%	6
3 North America	15,065,525	12,679,993	10,516,526	12,249,616	13,765,661	14,553,985	-511,540	-3.4%	-0.7%	-6.3%	5
4 South America	3,552,249	3,782,992	3,322,504	3,690,604	4,175,898	4,487,549	935,300	26.3%	4.8%	11.5%	3
5 East Europe	3,077,480	3,283,187	2,949,018	3,458,102	4,190,076	4,749,790	1,672,310	54.3%	9.1%	20.6%	2
6 Middle East & Africa	1,770,850	1,702,751	1,624,544	1,819,587	2,040,011	2,220,048	449,198	25.4%	4.6%	5.5%	4
Global Total Assembly	68,932,091	66,247,497	59,308,625	64,835,559	71,671,237	77,043,572	8,111,481	11.8%	2.2%	100.0%	
Global Capacity	83,364,037	87,303,186	87,858,837	92,417,082	96,398,723	97,961,155	14,597,118	17.5%	3.3%		
Global Excess Capacity	14,431,946	21,055,689	28,550,212	27,581,523	24,727,486	20,917,583	6,485,637	44.9%	7.7%		
Global Utilization	82.7%	75.9%	67.5%	70.2%	74.3%	78.6%					
Country (Top 20)	2007	2008	2009	2010	2011	2012	Unit Diff.	% Chg	CAGR	CTG %	Rank [†]
1 Japan	10,957,927	10,842,681	9,620,919	10,067,369	10,551,727	10,482,640	-475,287	-4.3%	-0.9%	-5.9%	54
2 USA	10,544,763	8,559,072	7,226,569	8,497,785	9,505,615	9,896,593	-648,170	-6.1%	-1.3%	-8.0%	57
3 China	6,949,073	7,463,887	7,577,513	8,184,513	9,286,219	10,973,911	4,024,838	57.9%	9.6%	49.6%	1
4 Germany	5,620,199	5,421,459	4,825,176	4,856,880	5,169,908	5,446,763	-173,436	-3.1%	-0.6%	-2.1%	50
5 South Korea	3,794,598	3,412,874	2,916,932	3,198,967	3,318,167	3,313,428	-481,170	-12.7%	-2.7%	-5.9%	55
6 France	2,943,020	2,570,333	2,238,874	2,327,840	2,502,531	2,567,568	-375,452	-12.8%	-2.7%	-4.6%	52
7 Spain	2,852,540	2,535,344	2,104,383	2,290,887	2,374,038	2,429,555	-422,985	-14.8%	-3.2%	-5.2%	53
8 Brazil	2,665,603	2,873,727	2,504,473	2,749,826	3,092,056	3,330,517	664,914	24.9%	4.6%	8.2%	5
9 Canada	2,538,457	2,063,741	1,694,341	1,913,655	2,062,306	2,026,955	-511,502	-20.2%	-4.4%	-6.3%	56
10 Mexico	1,982,305	2,057,180	1,595,616	1,838,176	2,197,740	2,630,437	648,132	32.7%	5.8%	8.0%	6
11 India	1,852,395	2,043,438	1,982,347	2,278,782	2,864,688	3,434,838	1,582,443	85.4%	13.1%	19.5%	2
12 United Kingdom	1,723,200	1,624,970	1,318,576	1,394,441	1,351,938	1,411,871	-311,329	-18.1%	-3.9%	-3.8%	51
13 Russia	1,445,745	1,564,766	1,552,839	1,830,245	2,225,474	2,553,424	1,107,679	76.6%	12.0%	13.7%	3
14 Thailand	1,362,629	1,486,935	1,360,187	1,639,904	2,087,629	2,412,193	1,049,564	77.0%	12.1%	12.9%	4
15 Italy	1,241,024	988,013	910,695	951,940	1,060,210	1,132,543	-108,481	-8.7%	-1.8%	-1.3%	49
16 Iran	1,138,626	1,070,176	1,039,209	1,151,244	1,226,723	1,299,901	161,275	14.2%	2.7%	2.0%	14
17 Turkey	1,053,291	1,102,665	883,163	942,552	1,059,652	1,170,124	116,833	11.1%	2.1%	1.4%	15
18 Czech Republic	855,384	852,959	854,941	879,428	944,910	970,736	115,352	13.5%	2.6%	1.4%	16
19 Belgium	789,241	676,369	571,251	549,822	688,010	686,935	-102,306	-13.0%	-2.7%	-1.3%	47
20 Poland	780,484	970,116	843,167	826,722	808,440	830,717	50,233	6.4%	1.3%	0.6%	25
Top 20 Total Assembly	63,090,504	60,180,705	53,621,171	58,370,982	64,377,981	69,001,649	5,911,145	9.4%	1.8%	72.9%	
Top 20 (% of Global Total)	91.5%	90.8%	90.4%	90.0%	89.8%	89.6%	72.9%				
Alliance Group (Top 13)	2007	2008	2009	2010	2011	2012	Unit Diff.	% Chg	CAGR	CTG %	Rank [†]
1 Toyota Group	10,111,165	9,793,862	9,000,043	9,445,574	10,386,924	10,933,401	822,236	8.1%	1.6%	10.1%	5
2 GM Group	9,355,499	8,641,231	7,163,280	7,992,660	8,777,592	9,188,303	-167,196	-1.8%	-0.4%	-2.1%	70
3 Ford Group	7,542,949	6,887,318	5,972,893	6,581,098	7,061,463	7,546,404	3,455	0.0%	0.0%	0.0%	37
4 Renault-Nissan	6,952,214	6,944,531	6,304,035	7,251,090	8,098,839	8,629,274	1,677,060	24.1%	4.4%	20.7%	1
5 VW-Porsche	6,291,105	6,436,507	5,792,949	6,065,607	6,895,074	7,704,404	1,413,299	22.5%	4.1%	17.4%	2
6 Hyundai Group	4,023,725	4,168,937	3,968,073	4,493,824	5,043,830	5,419,472	1,395,747	34.7%	6.1%	17.2%	3
7 Honda Group	3,906,600	3,924,994	3,744,492	4,083,271	4,430,688	4,964,751	1,058,151	27.1%	4.9%	13.0%	4
8 PSA Group	3,608,926	3,379,982	3,022,990	3,148,705	3,256,315	3,388,999	-219,927	-6.1%	-1.2%	-2.7%	71
9 Fiat Group	2,620,872	2,478,210	2,303,198	2,679,796	3,087,226	3,385,042	764,170	29.2%	5.3%	9.4%	6
10 Chrysler Group	2,576,827	1,911,679	1,350,768	1,424,424	1,471,401	1,484,018	-1,092,809	-42.4%	-10.4%	-13.5%	73
11 Suzuki Group	2,417,788	2,471,339	2,311,304	2,360,011	2,623,528	2,721,209	303,421	12.5%	2.4%	3.7%	9
12 Daimler Group	1,573,623	1,630,132	1,394,250	1,472,381	1,554,050	1,706,856	133,233	8.5%	1.6%	1.6%	14
13 BMW Group	1,542,845	1,438,490	1,234,757	1,400,404	1,633,388	1,723,320	180,475	11.7%	2.2%	2.2%	11
Top 13 Total Assembly	62,524,138	60,107,212	53,563,032	58,398,845	64,320,318	68,795,453	6,271,315	10.0%	1.9%	77.3%	
Top 13 (% of Global Total)	90.7%	90.7%	90.3%	90.1%	89.7%	89.3%	77.3%				

[†]Rankings based on contribution to total global growth (CTG%).

Source: AUTOFACTS Global Light Vehicle Assembly Outlook 2009 Q1 Release (Updated January 8, 2009)