



# European Industry Update

## ECG Spring Congress, Malta

### May 19<sup>th</sup> 2017

Justin Cox – Director Global Production, LMC Automotive, Oxford, UK

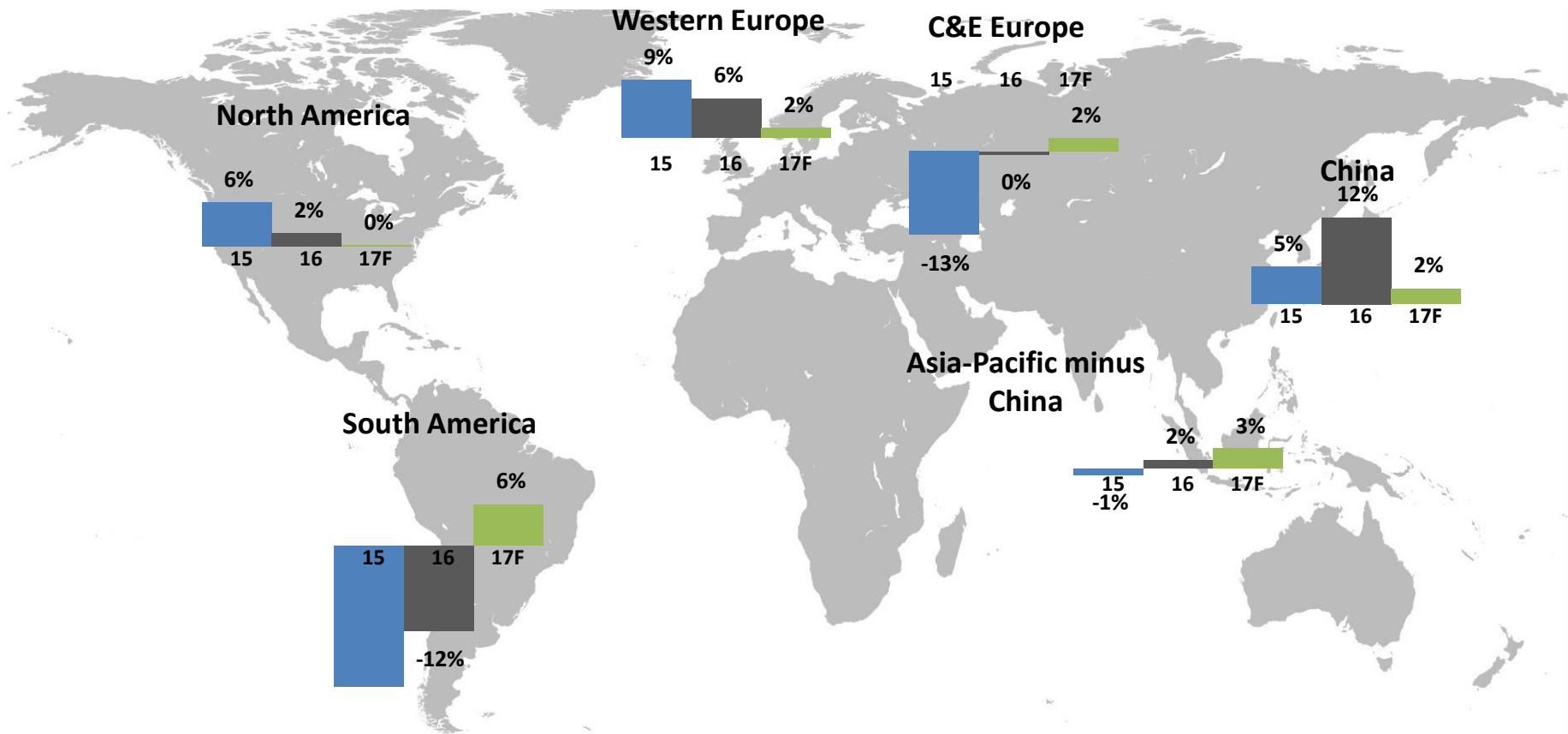
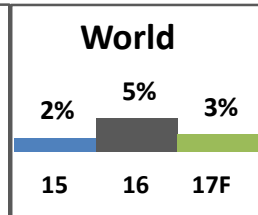
## **Global Demand Environment**

**Production short-run outlook**

**Medium-term outlook**

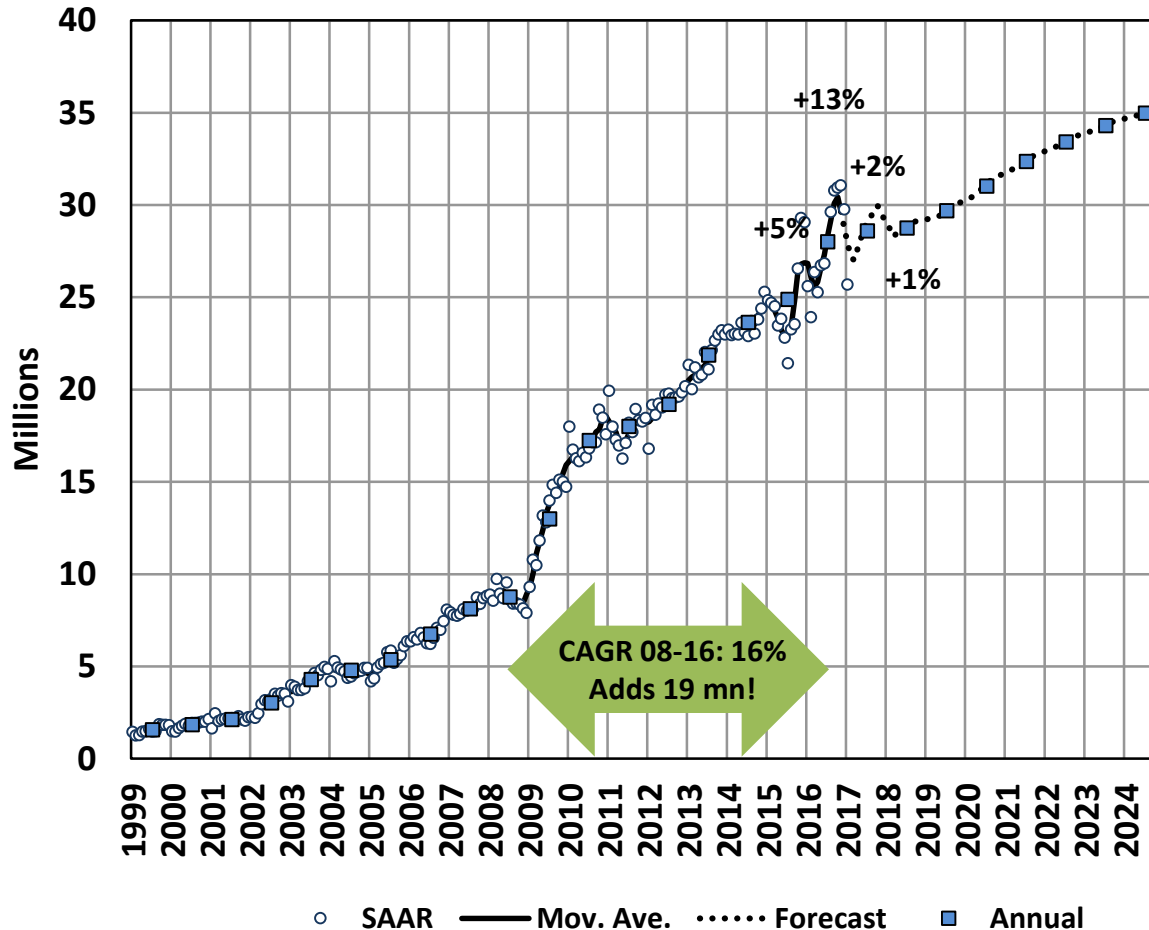
# Global Vehicle market poised for 8<sup>th</sup> year of growth

The pre-2017 themes of expansion in North America, Western Europe and China are expected to begin to dissipate this year, while signs of recovery in Brazil and Russia are also expected to begin to emerge.



Source: LMC Automotive

## China Light Vehicle sales

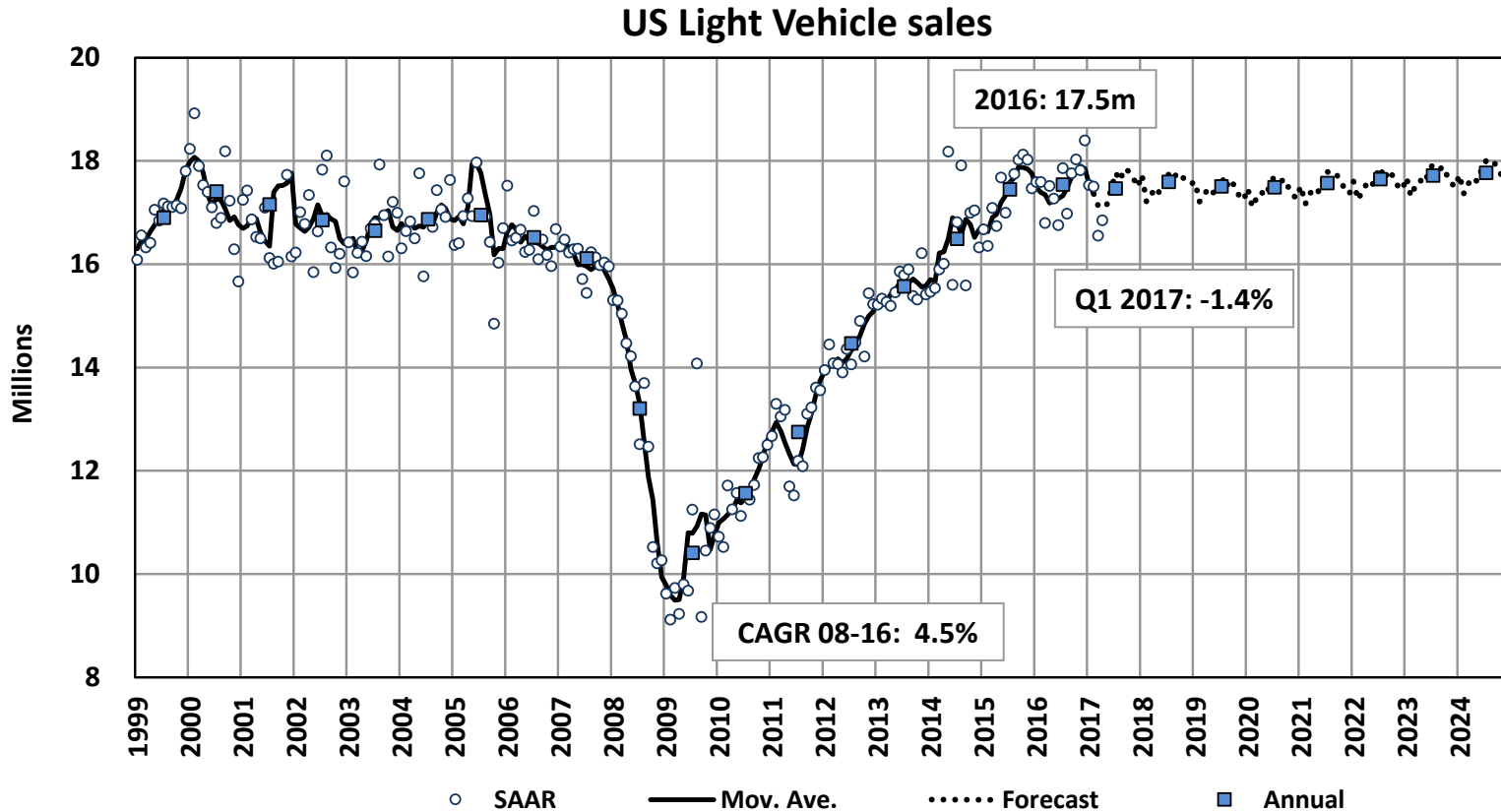


Boost to sales in late 2015 and 2016 as tax cut (on small engine vehicles) by 5%.

Buyers expected tax cut to lapse, resulting in surge in sales in late 2016. Tax cut extended but reduced for 2017 – expect another spike at end of this year.

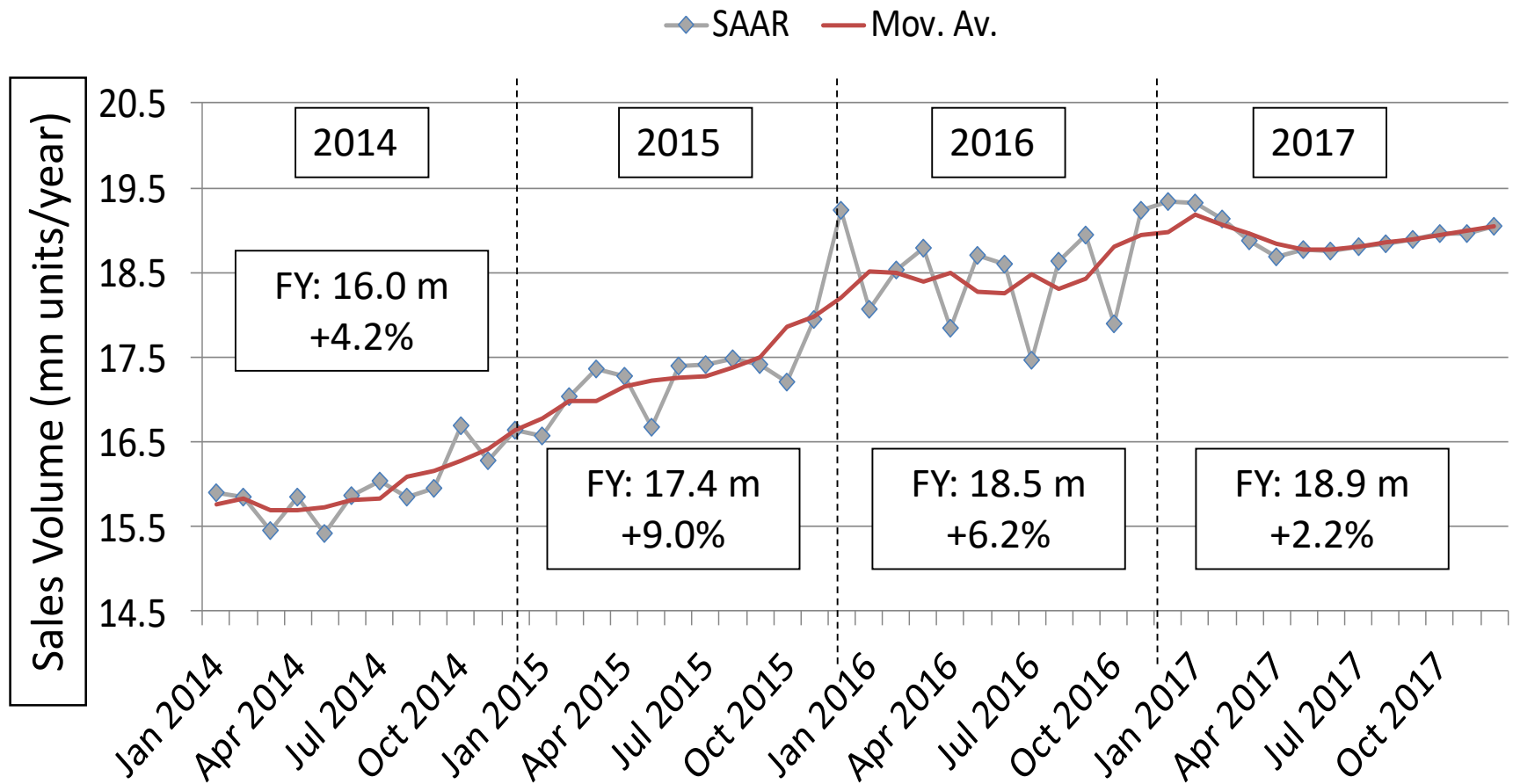
Further incentive a distinct possibility, but growth in 2018 will vanish without this.

Growth beyond 2018 driven by mid-Tier cities, not by megacities such as Shanghai and Beijing.



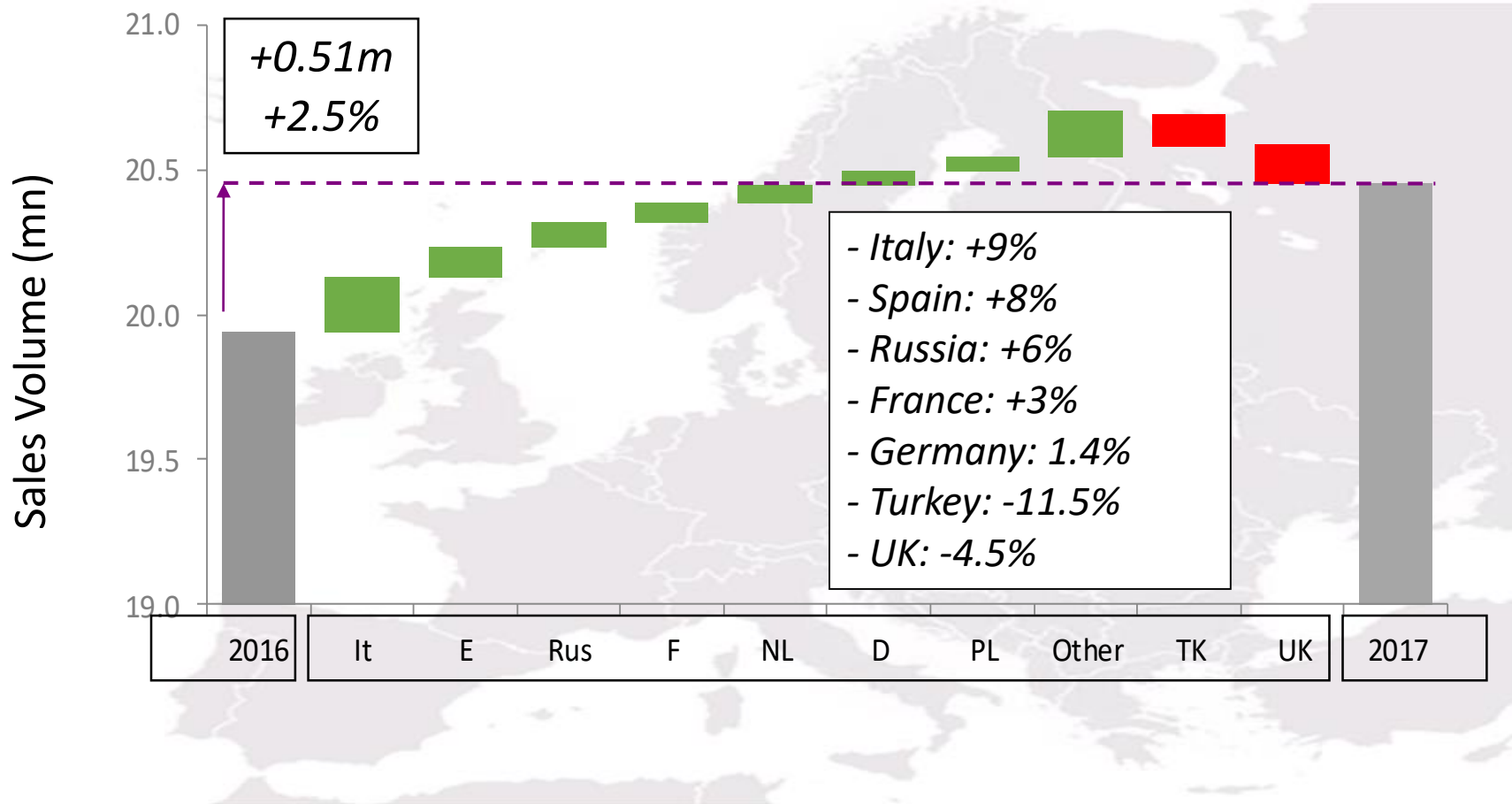
- Baseline US LV topline is expected to grow at a CAGR of just 0.2% from 2016-2024.
- Incentives up: 10.6% of purchase price (ytd 2017)
- Risks to baseline include lease maturities (used car substitute), tighter credit and trade/fiscal policies

# Total Europe Light Vehicle Market – Excluding Russia

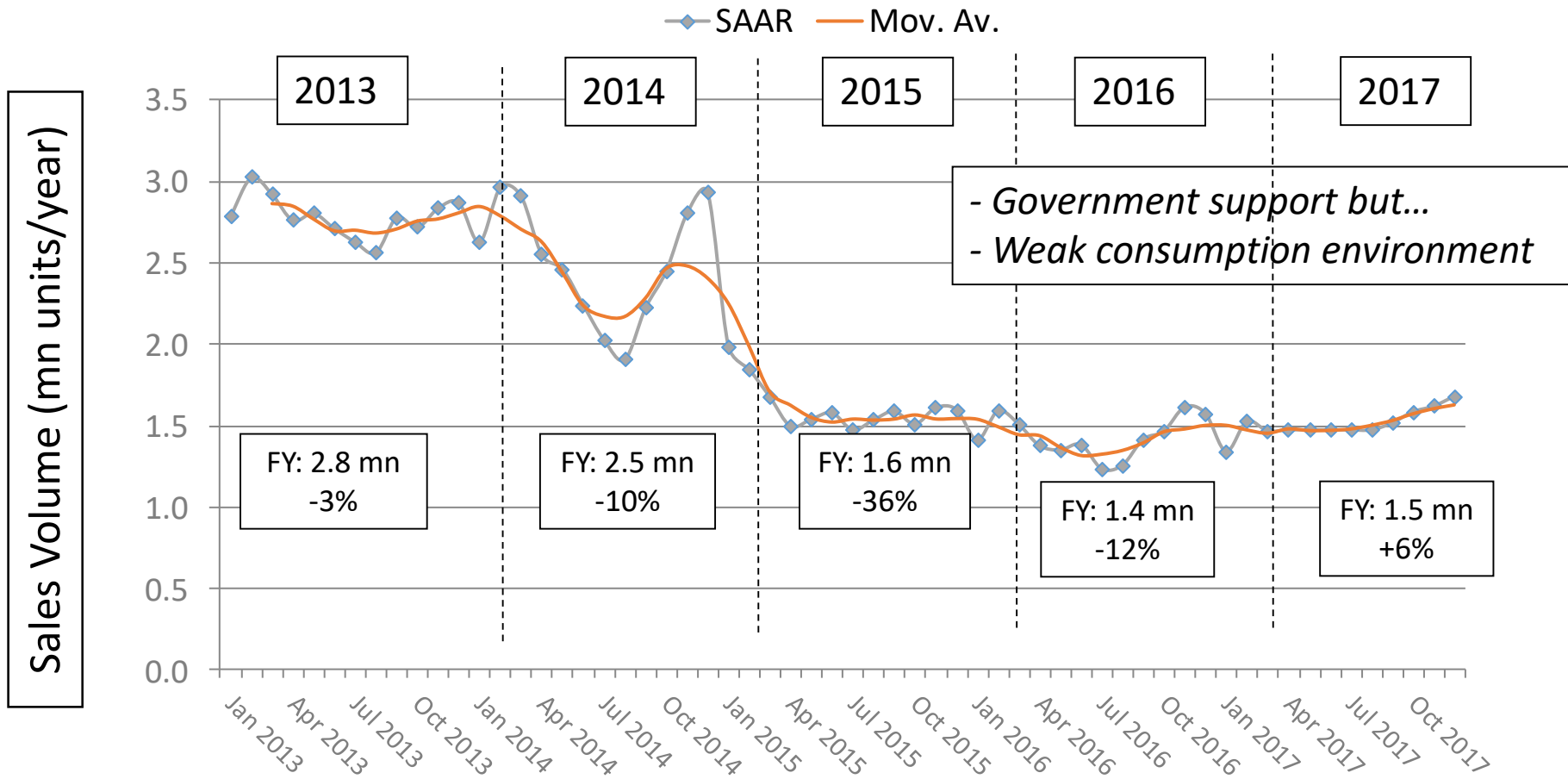


## Pan-European LV Market : 2017

*Recovery continues although mature markets fade*

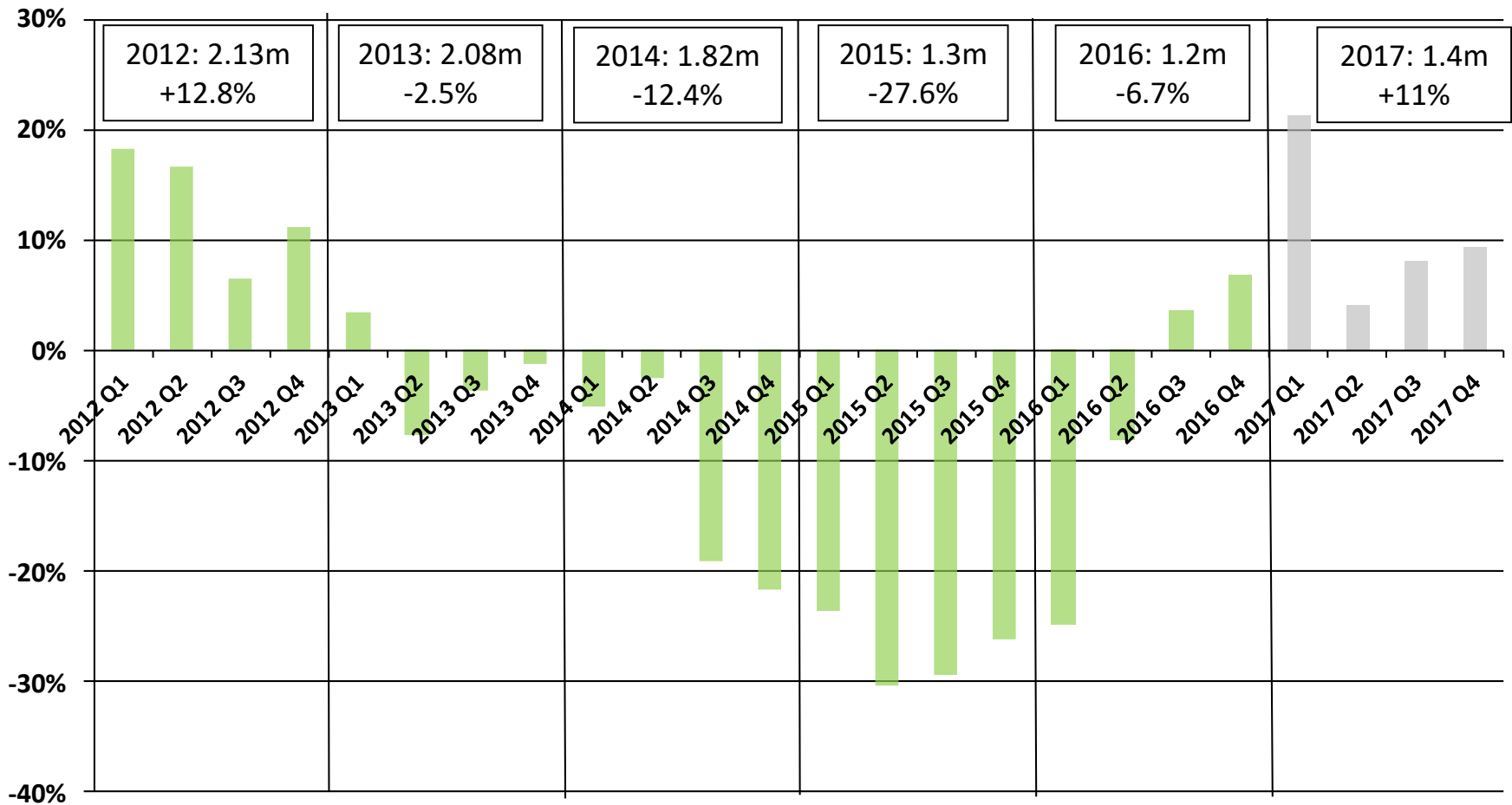


## Total Russian Light Vehicle Market



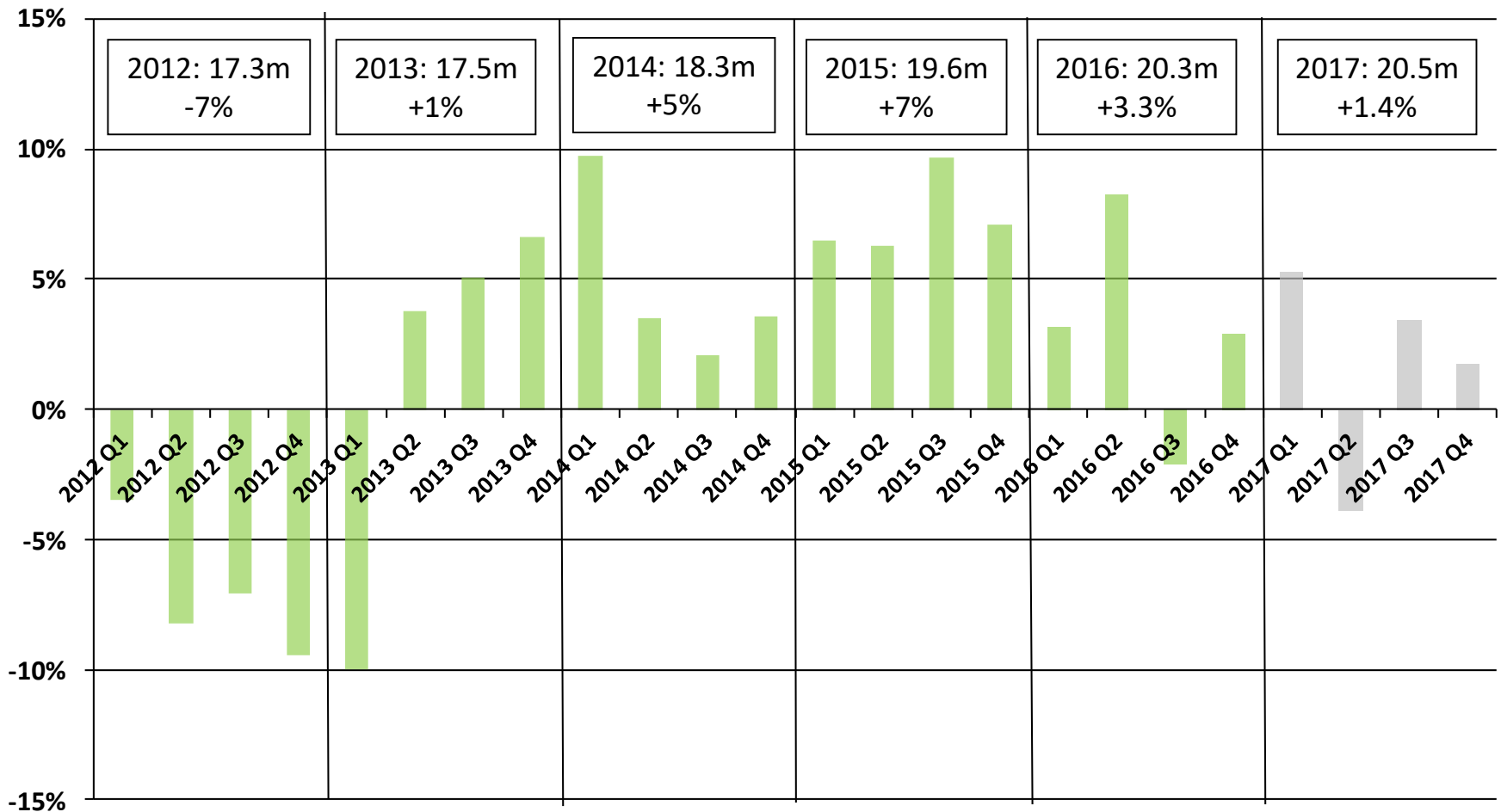


## Russian LV Production Growth



Source: LMC Automotive

## European LV Production Growth (excluding Russia)



Source: LMC Automotive

# European Vehicle Inventory Assessment Overview

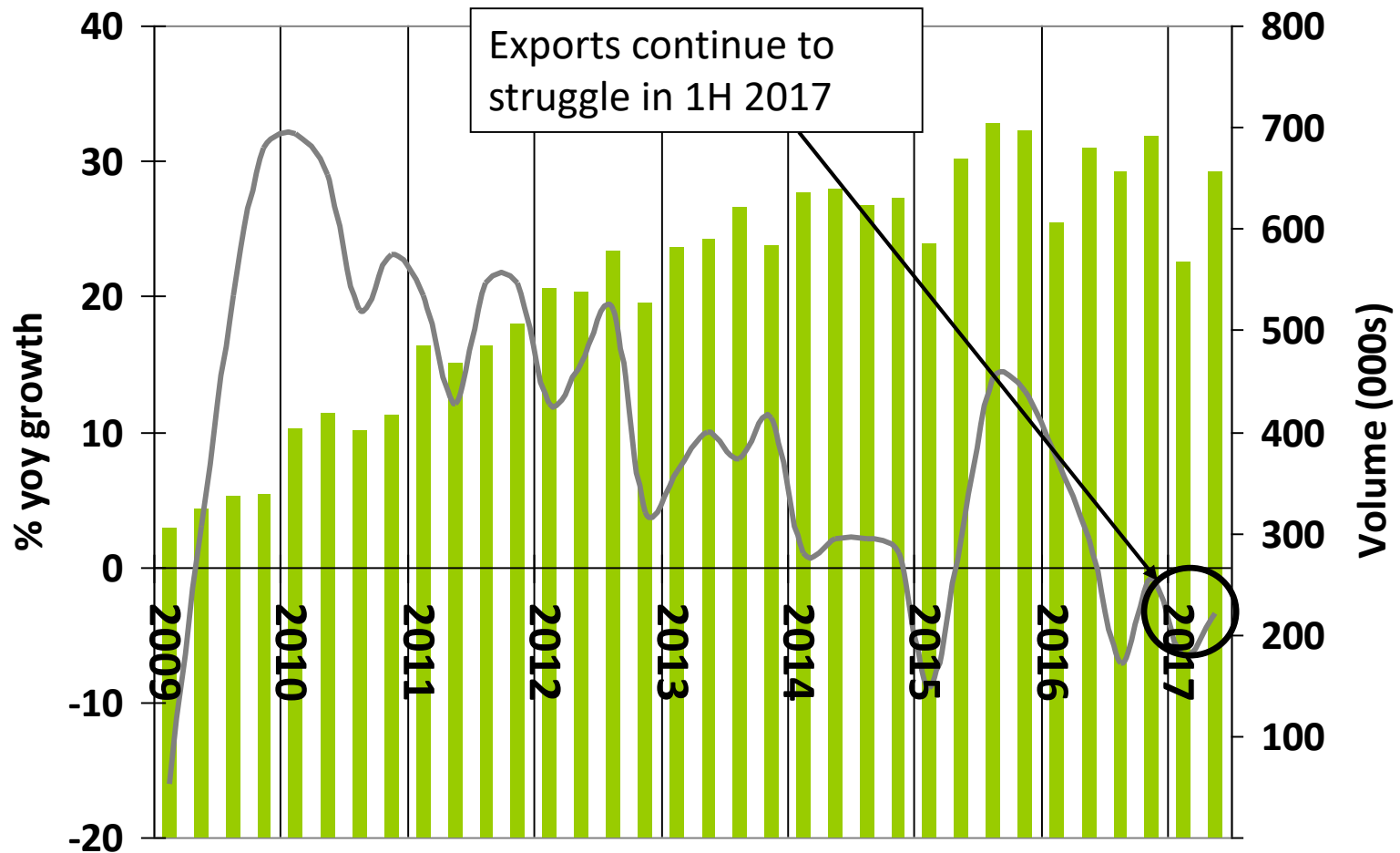
## *Selected Group*

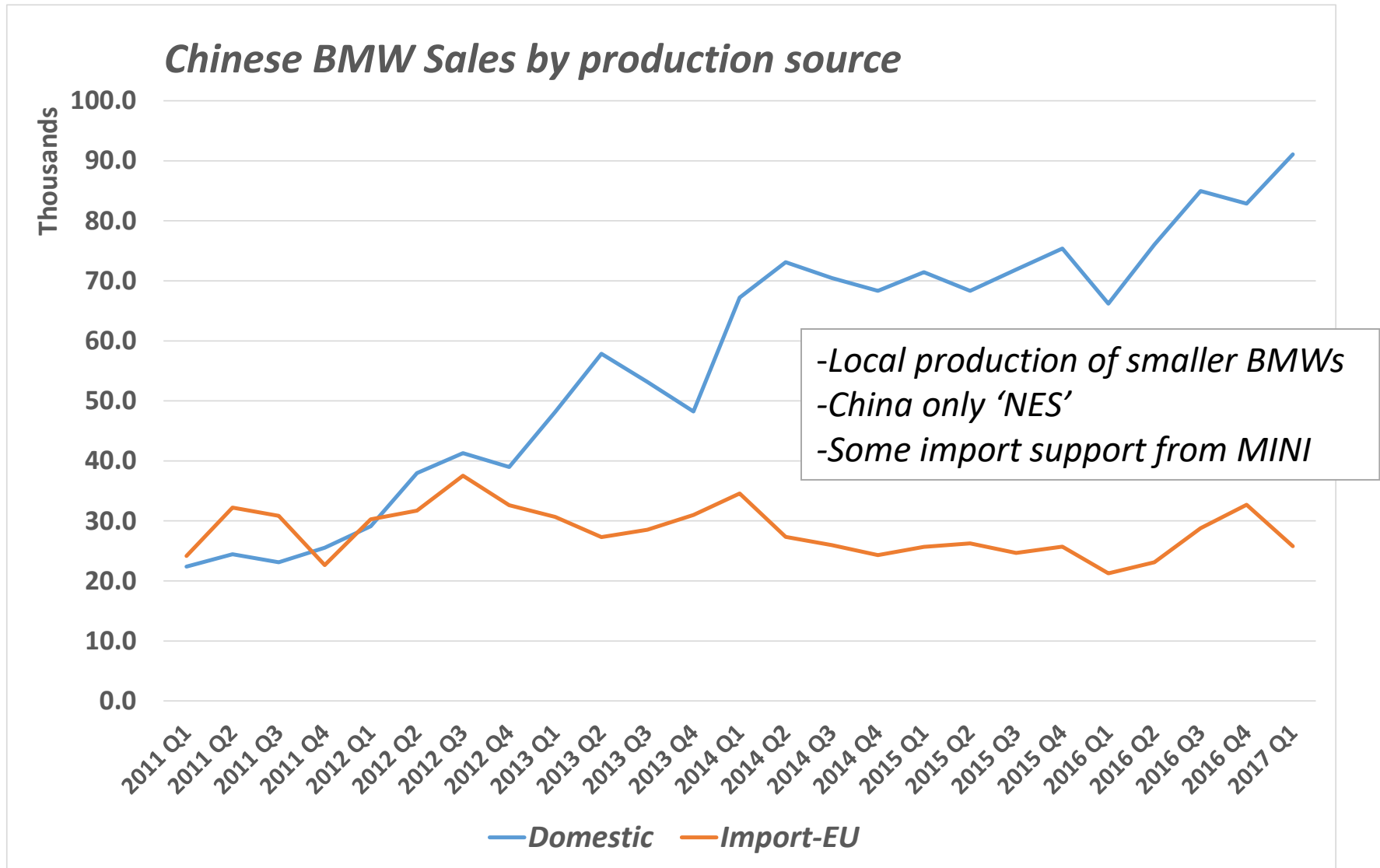
	End-of-Period Inventory Measure				Benchmark
	Inventory Holding		Days Supply		
	2016(Q4)	2017(Q1)	2016(Q4)	2017(Q1)	
BMW Group	391	372	51	52	54
Daimler Group	403	380	54	56	62
Fiat Chrysler Automobiles	376	360	55	72	61
Ford	317	312	64	68	58
PSA Group	685	684	64	71	62
Renault-Nissan	784	786	64	75	65
Tata Group (JLR)	130	134	59	63	63
Volkswagen Group	1094	1086	51	57	54
EUROPE	4804	4729	57	65	58

- Premium OEMs keep firm grip on inventories; risk is that they are perhaps too tight
- Indication that some non-premiums' inventories are running a little too 'fat'
- Expect this to unwind in Q3

## European Exports (NA,SA,Asia):

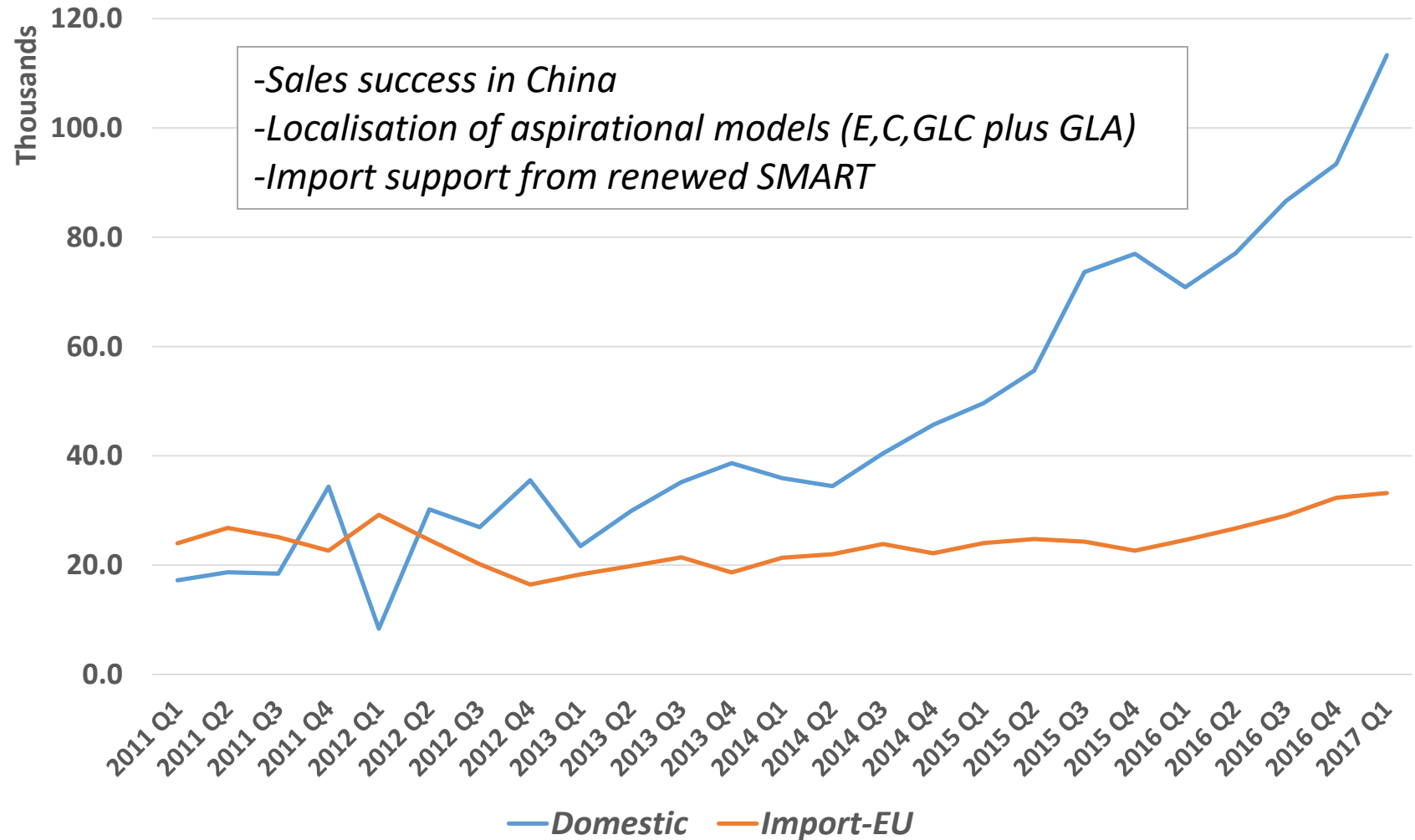
*Growth stays negative*





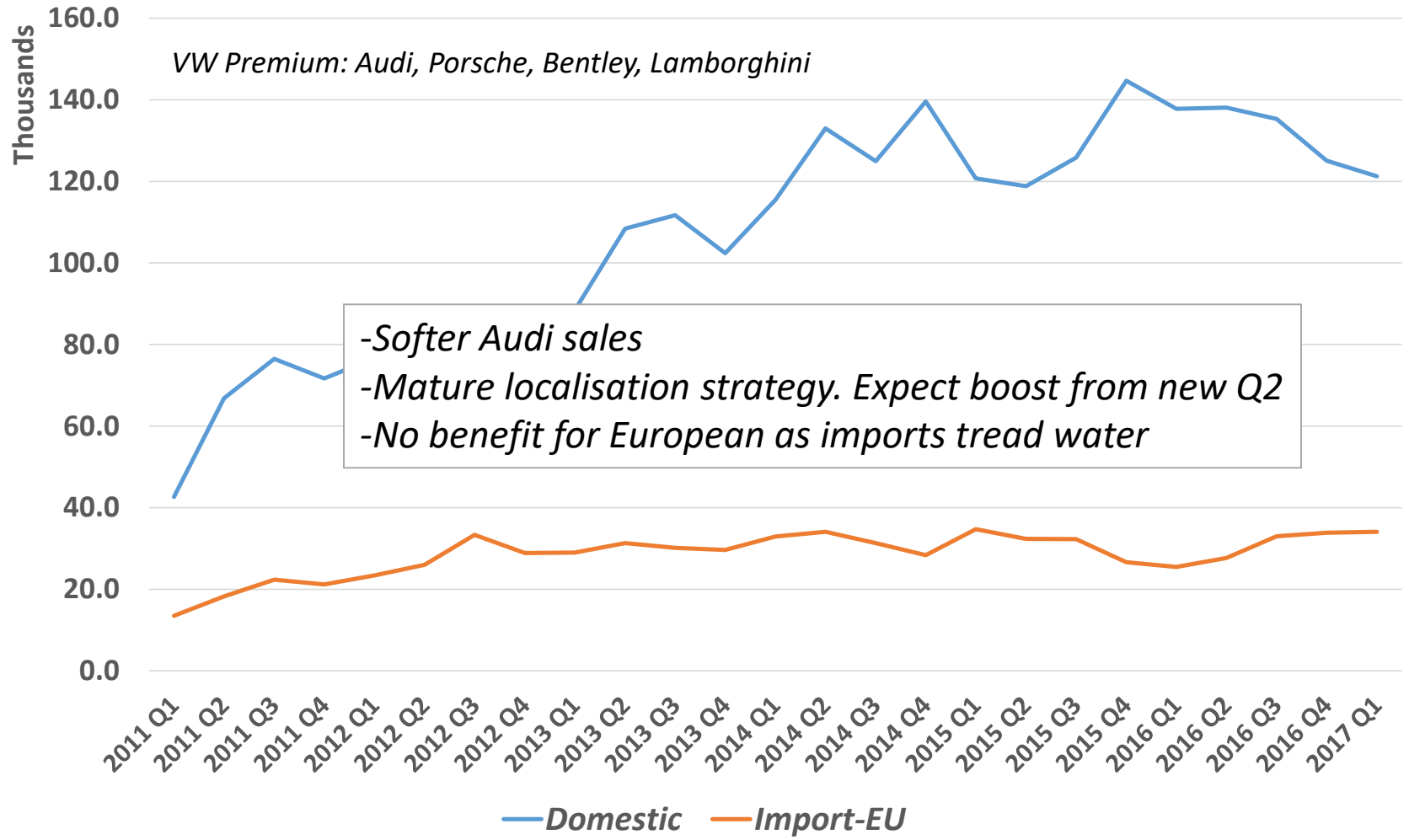
Source: LMC Automotive

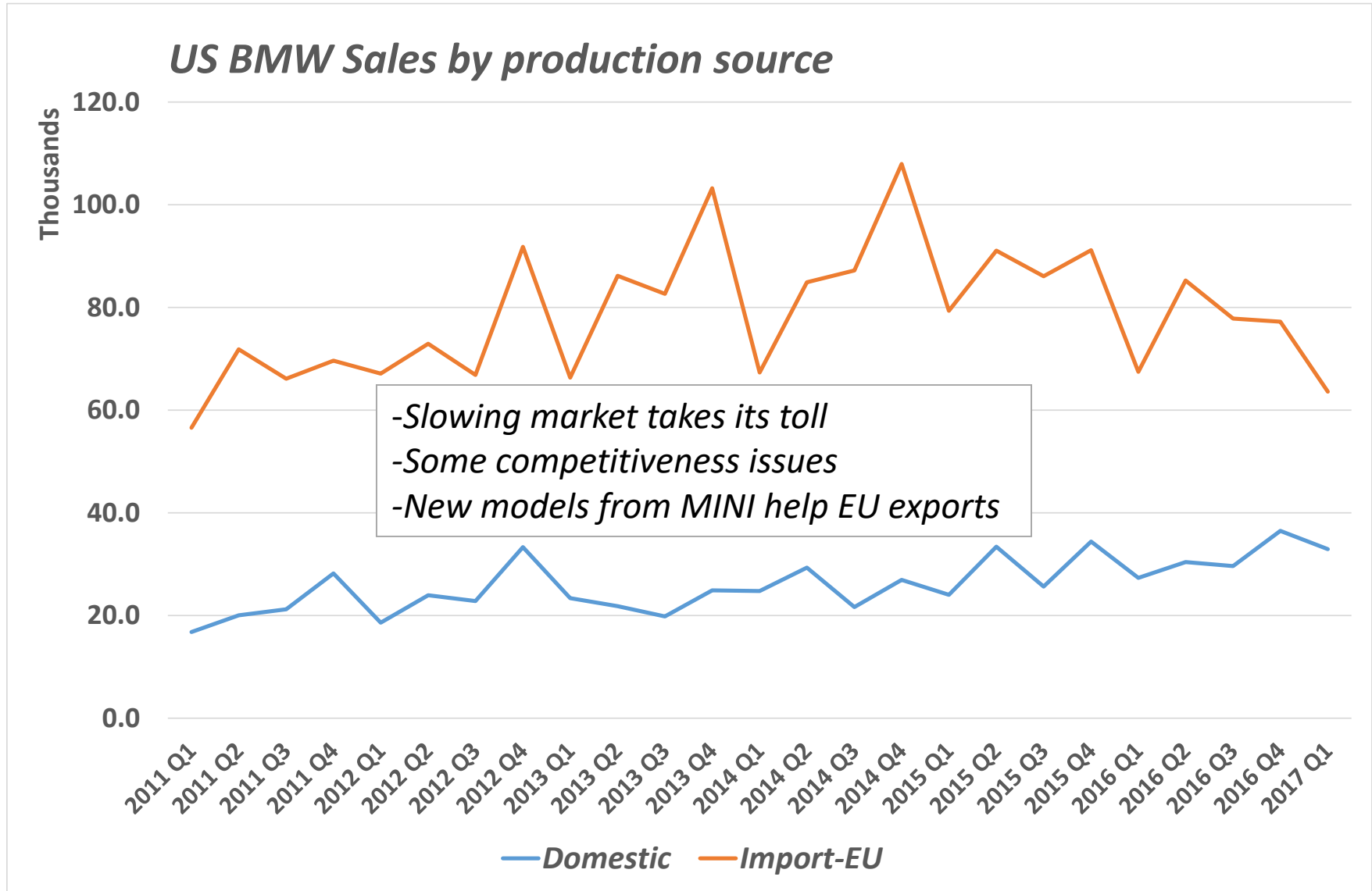
## Chinese Daimler Sales by production source



Source: LMC Automotive

## Chinese VW Group Premium Sales by production source

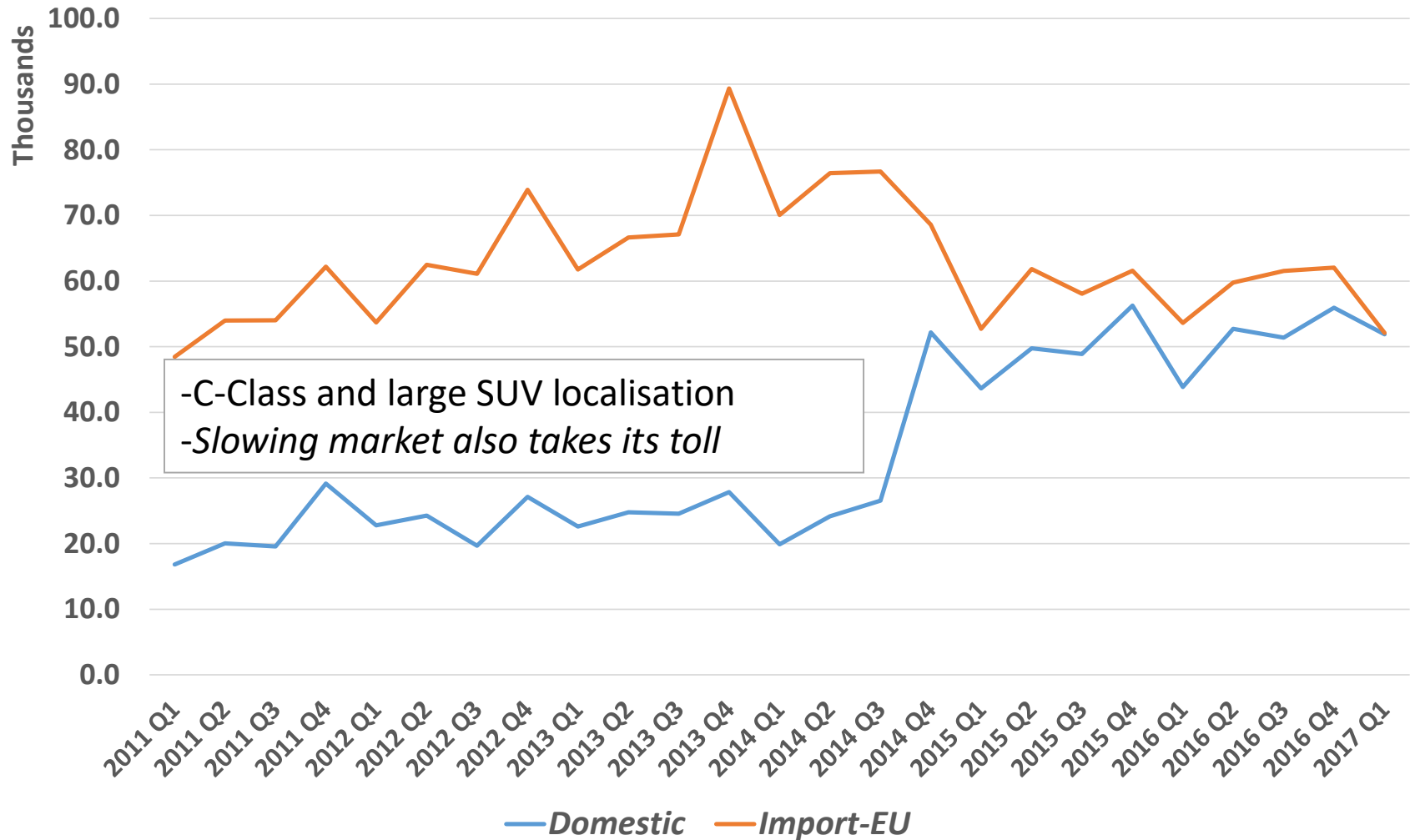




Source: LMC Automotive

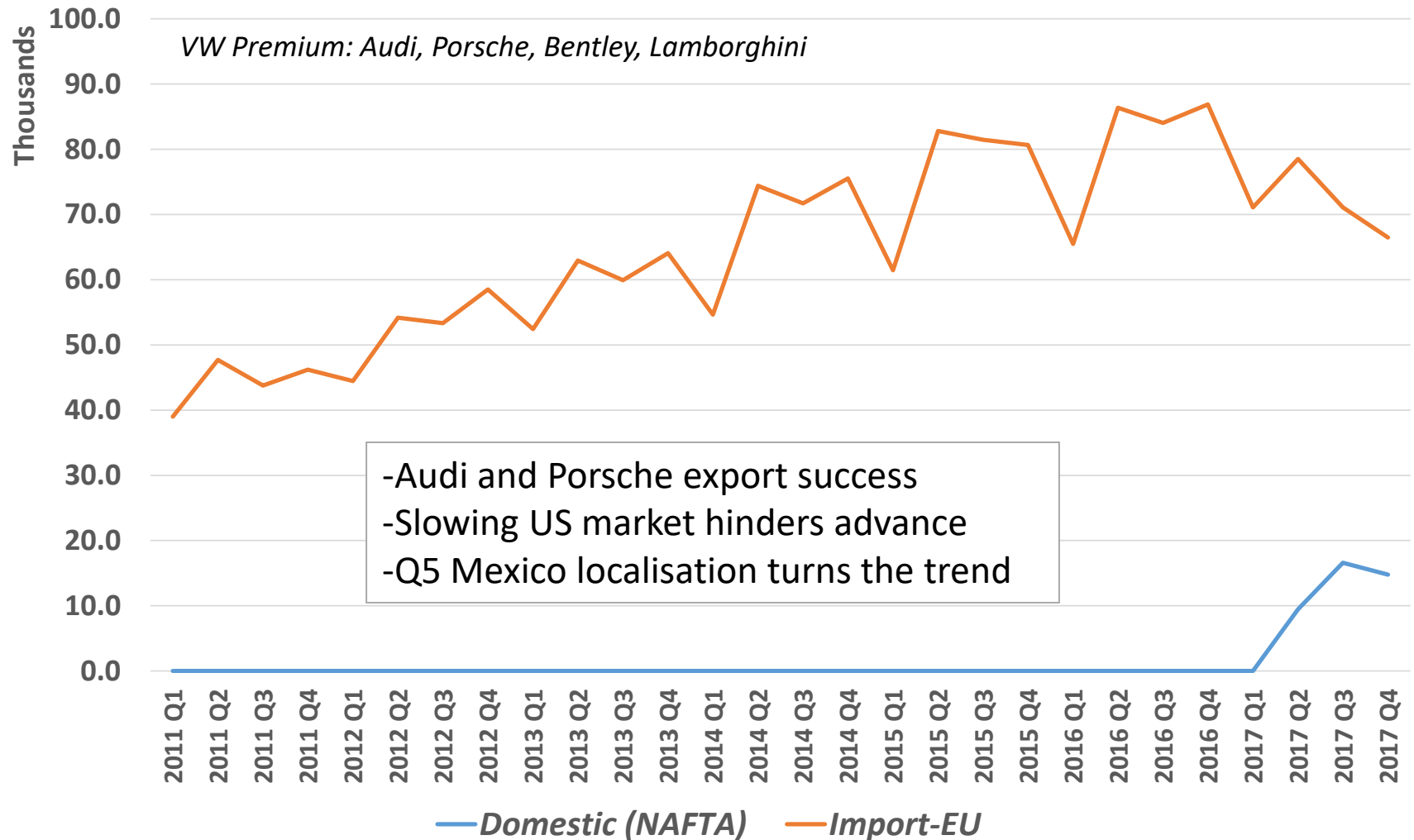


## US Daimler Group Sales by production source



## US VW Premium Sales by production source

VW Premium: Audi, Porsche, Bentley, Lamborghini



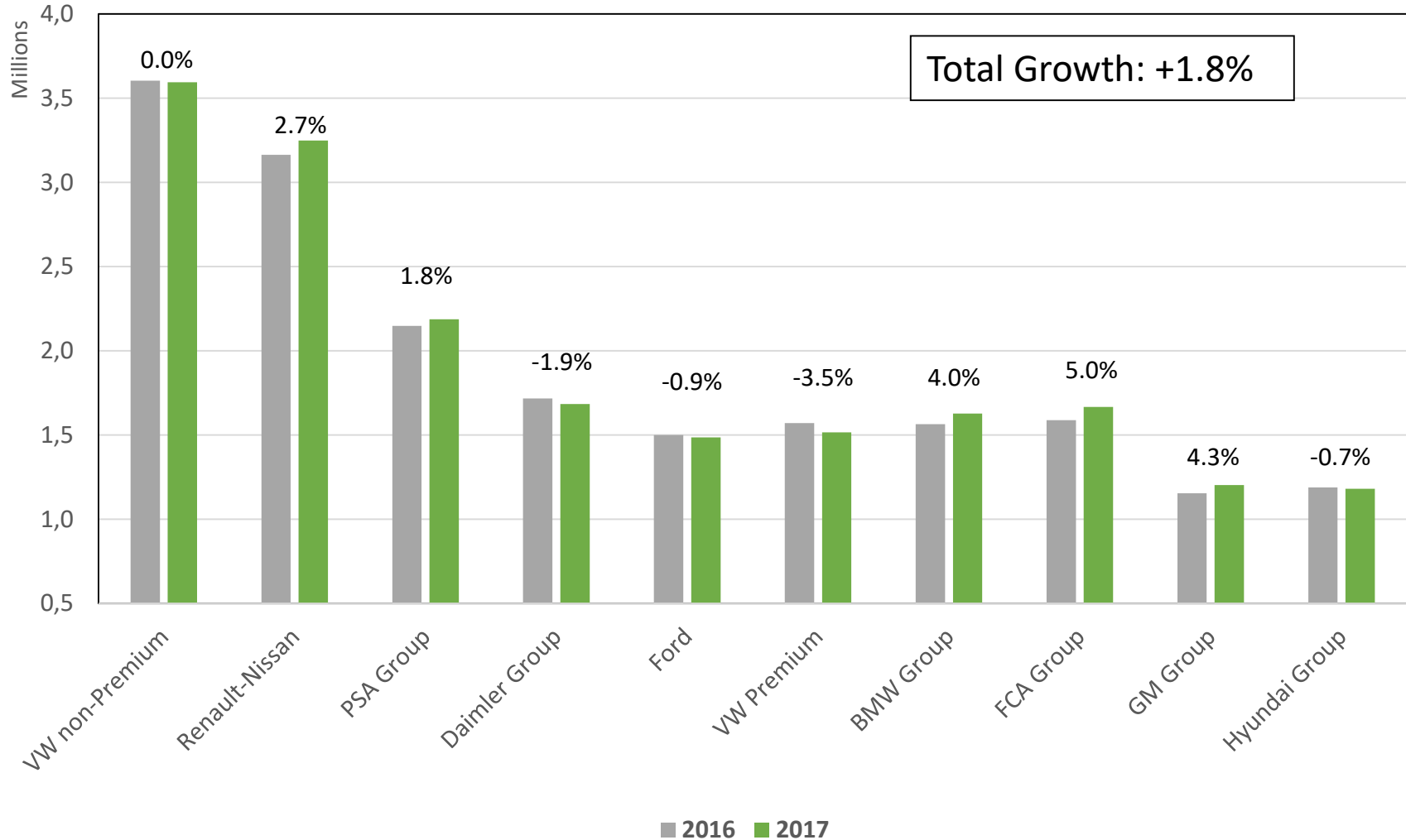
Source: LMC Automotive

## Selected Key models for 2017 European production

BMW Group	5-Series Countryman
Daimler Group	E-Class Coupe GLC Coupe
FCA	Stelvio
Ford	Fiesta
GM	Crossland X GrandLand X
PSA	C3 3008 5008
Renault Nissan	Micra Alaskan
VW Premium	A5 Q2
VW non-Premium	Ateca Kodiahq Tiguan Arteon



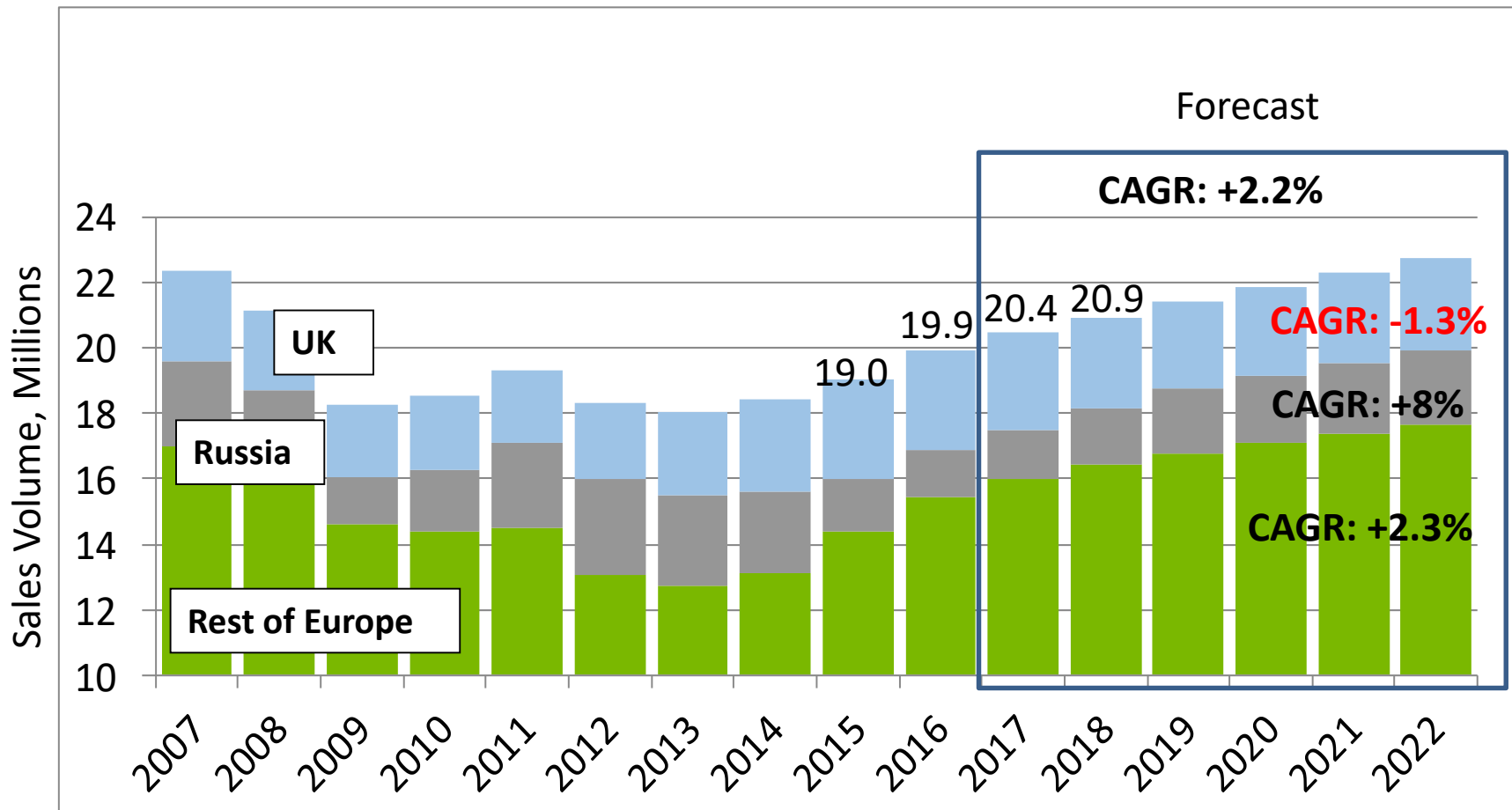
## Pan-European Production by key OEM Group 2017 v 2016



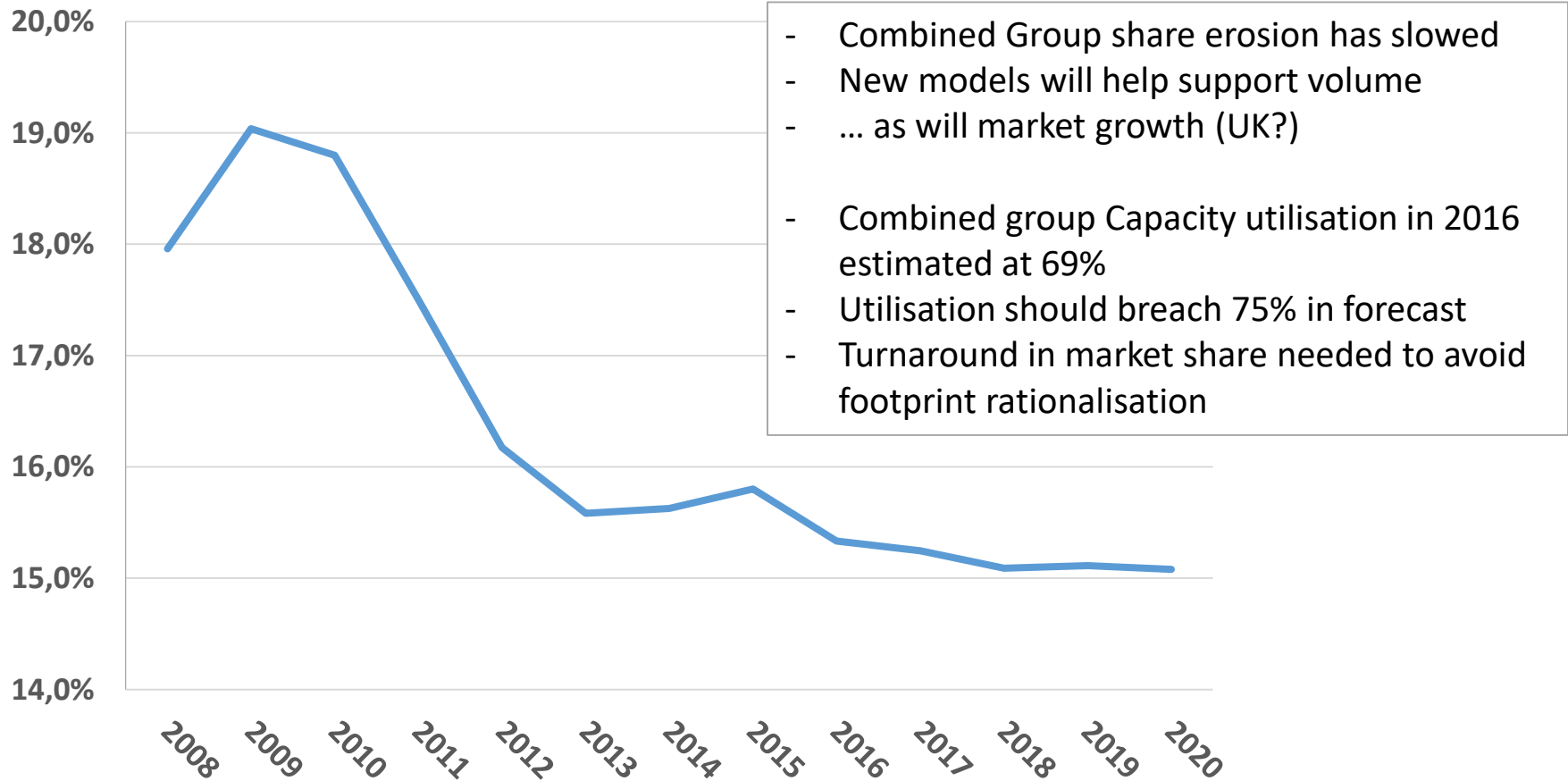
Source: LMC Automotive

**Global Demand Environment**  
**Production short-run outlook**  
**Medium-term outlook**

## Pan Europe Medium-Term LV Sales



## PSA-Opel/Vauxhall European market share\*



*\*includes some lower volume import models*

**‘Trump triggers trade war’: highest ranked downside global economic risk, Oxford Economics Risk Survey**

**“You can build cars in the United States, but for every car that comes to the USA, you will pay 35% tax” *President Trump, Jan 2017***

**“I would tell BMW that if you are building a factory in Mexico and plan to sell cars to the USA, without a 35% tax, then you can forget it” *President Trump, Jan 2017***

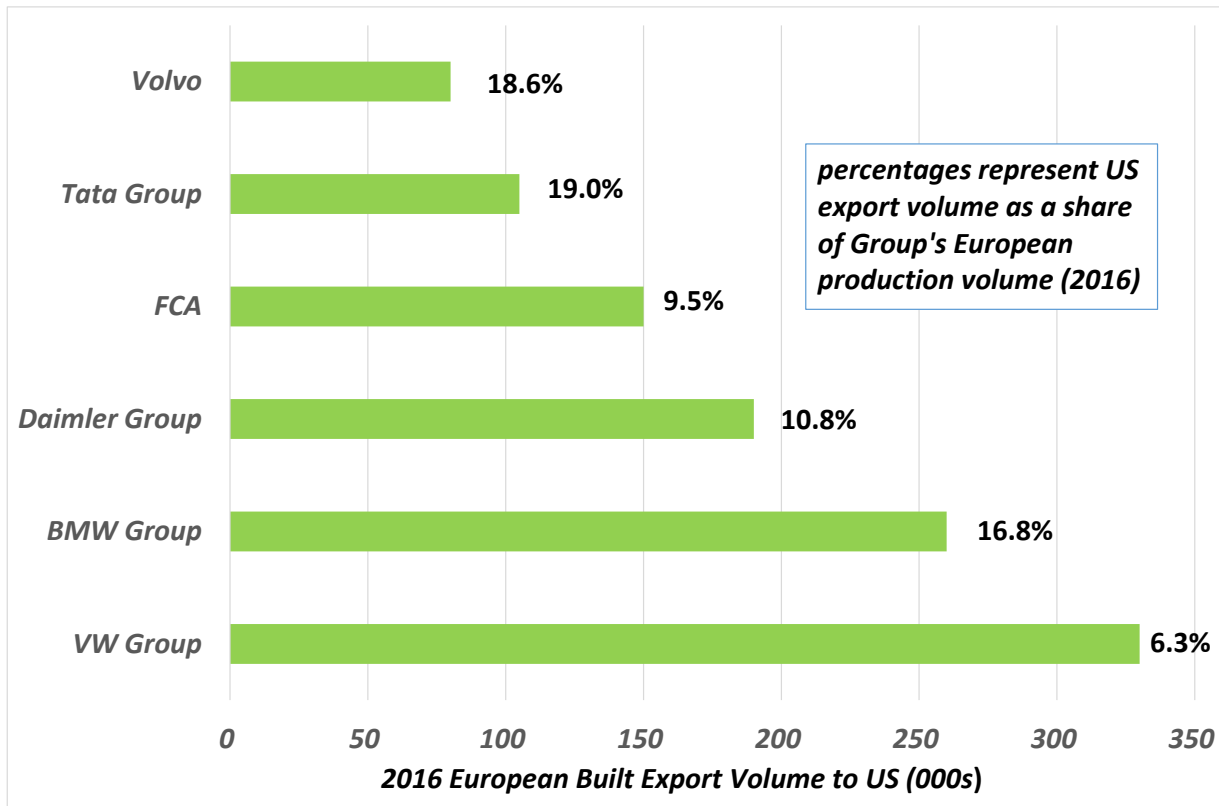


- A border tax of 20% could have massive implications to the auto industry by raising vehicle prices, reducing consumer choices and negatively impacting volume at the topline and also brand level

Tax Scenario	2017 Vol Affected	% of US Sales	Ave Vehicle Price	Ave Tax	Potential US Sales Impact
Mexico Only Vehicle Tax	2.58mn	15%	\$ 24,816	\$ 4,963	400-500k
All Non-US and Non-Can Vehicle Tax	6.15mn	35%	\$ 30,390	\$ 6,078	1.0-1.5mn
All Import Vehicle/Parts Tax	17.56mn	100%	\$ 31,500	\$ 1,890	up to 2.3mn

- Our current baseline assumption is that the border tax is a threat ahead of NAFTA renegotiations more than expected reality
- If all imported vehicles and parts are taxed, it could mean multiple taxes on parts or component systems that cross a border more than once, resulting in a hit to new vehicles sales beyond the 2.3mn level

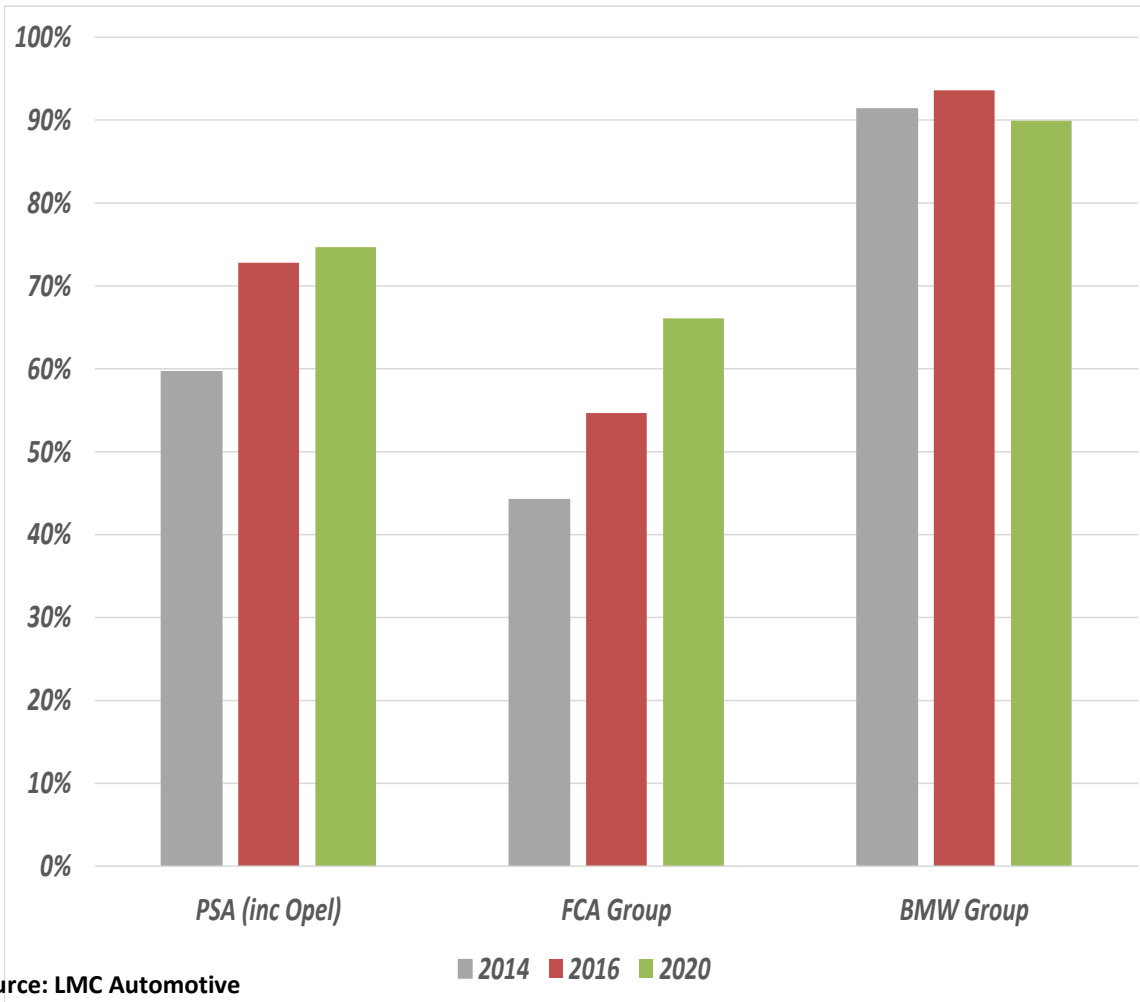
## European Production Volume Exported to US *by selected OEMs*



- Despite Emissions crisis, Audi and Porsche remain strong exporters to US
- Europe sourcing for 3/4/5-Series & Mini. Mexico plant in 2019
- FCA exposed to Jeep and 500X. Sourcing of next Alfa SUVs?
- US important market for JLR
- Volvo: US plant in operation by 2019

# European Capacity Utilisation (%)

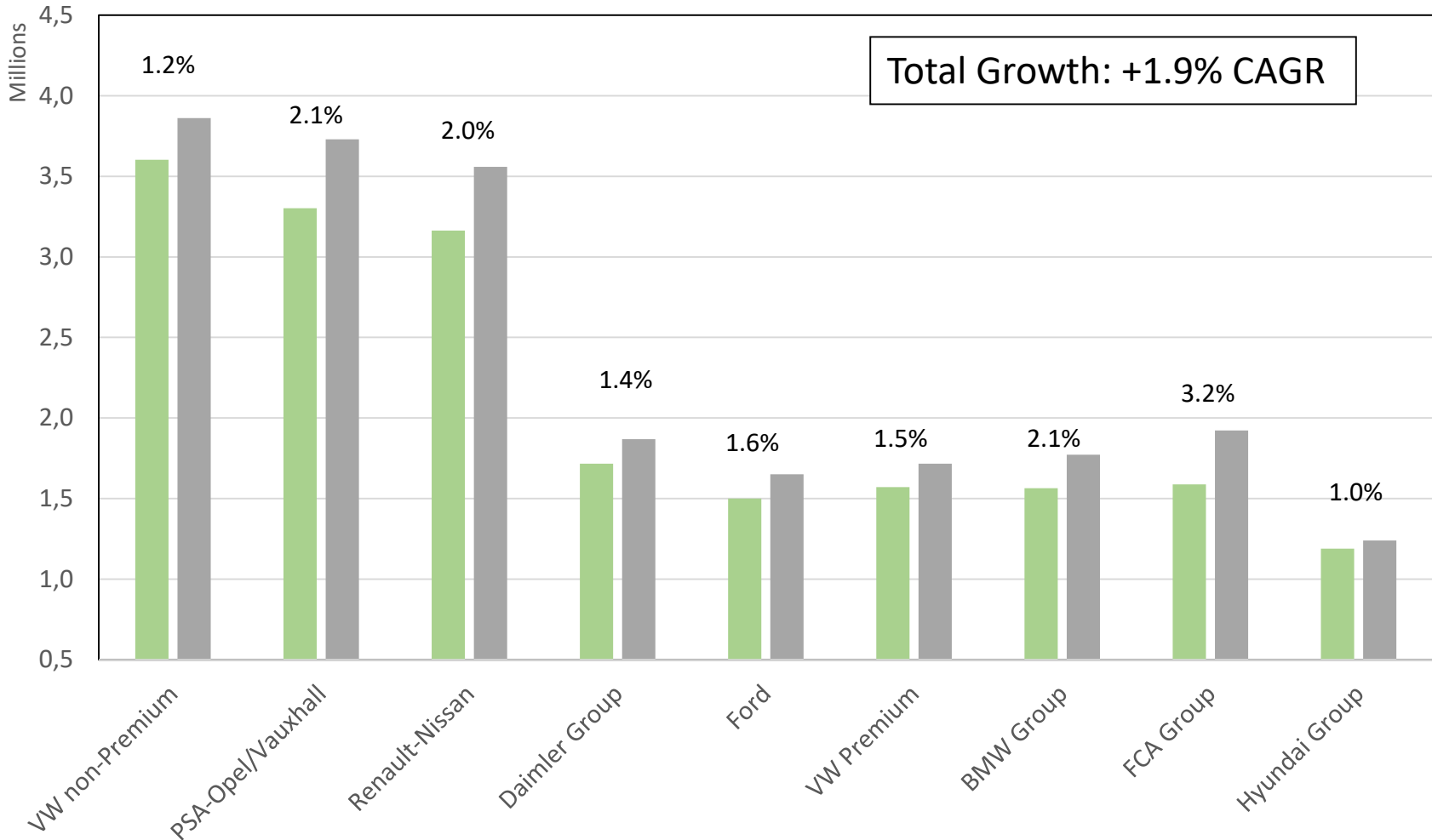
*Selected Groups – note: excludes JV facilities*



- Progress at PSA-Opel due to plant closures and capacity 'trimming'.
- FCA progress underpinned by export drive. Vulnerable strategy?
- BMW relies on localisation to mitigate tight capacity at home. Trump impact?

# Pan-European Production by key OEM Group 2022 v 2016

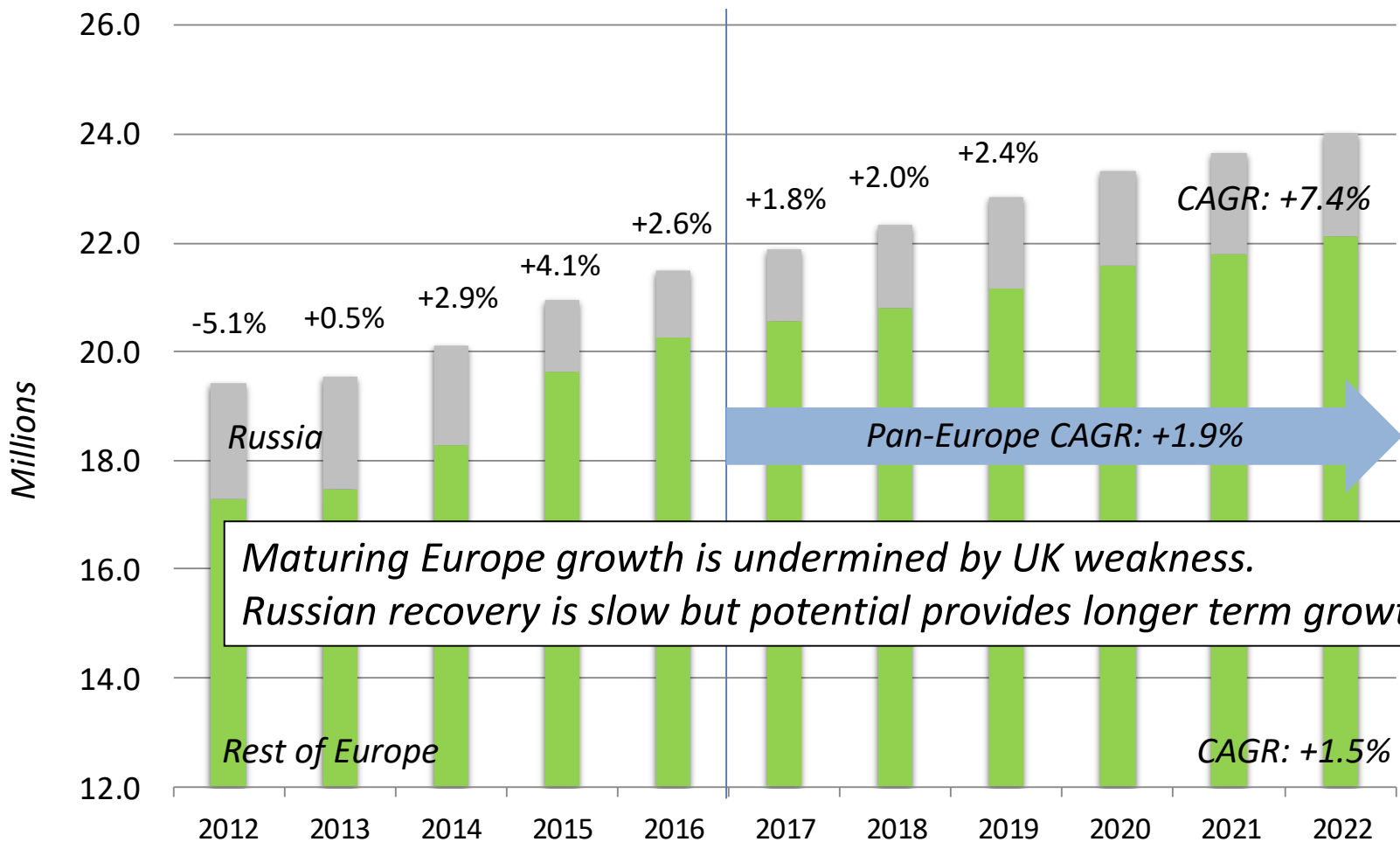
## % CAGR



Source: LMC Automotive

■ 2016 ■ 2022

## Pan European Light Vehicle production outlook



Source: LMC Automotive

- *Although growth has slowed from 2016, European auto-markets remain robust especially in light of the recent political uncertainties.*
- *Near term, the 'catch-up' markets are still providing the lion's share of growth as the 'mature' markets ease back. Russia finally bottoms out.*
- *Production continues to broadly mirror the development of European demand with those OEMs most exposed to Italy and Spain enjoying a volume boost.*
- *Overseas localisation and a slower export markets continue to take their toll upon the growth pace in exports this year.*
- *Medium term, the European market remains the key driver for production. Brexit will provide a drag but Russia's (slow) recovery will provide a fillip.*
- *Risks have risen recently and threats to global trade leave Europe's key auto-exporters exposed.*



**Thank You**

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