Press Release

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Automotive industry: the global market returns to cruising speed

Sector analysis by credit insurer Euler Hermes

- **The global automotive market is expected to hold up well, with 4% growth in 2012 and 2013**
- **Production is shifting to the new economies, at the expense of industrialized nations**
- **The US market has seen a revival, with 12% growth and a return to profitability this year**
- **Japan is suffering from the strong yen**
- **European market remains depressed, hit by the crisis and overcapacity; it is expected to shrink by 6% in 2012.**

PARIS, 21 SEPTEMBER 2012 – Despite the economic slowdown, the automotive sector worldwide is holding up well, with healthy growth of 4% expected in 2012 and 2013. Production of private and commercial vehicles should reach 83.3 million units this year, and close to 87 million units next year. The industry owes its performance to the emerging economies, first and foremost China and India.

"In a global market posting stable growth, Europe is lagging behind. More than ever, manufacturers must now have an international presence and market specific product range to achieve the returns necessary to finance investment and research", says Wilfried Verstraete, Chairman of the Euler Hermes Group Management Board. "US manufacturers have achieved a turnaround since the 2008-2009 crisis. In a market expected to grow by 12% in 2012, they should achieve a solid return of 4.7%."

Regional balances are being overturned

"We are seeing a significant shift of automotive production and consumption towards the new economies, where production costs and vehicle ownership rates are still low while per capita incomes are rising", explains Ludovic Subran, Euler Hermes' chief economist. Accordingly, between 2007 and 2011, automotive production leapt by 107.4% in China, 74.7% in India, 27.9% in Mexico, 14.4% in Brazil and 14% in South Korea. In contrast, the traditional markets – other than Germany, which grew by 1.6% - have posted progressive declines: United Kingdom (down 16.4%), Spain (down 18.5%), United States (down 19.7%), France (down 23.9%), Japan (down 27.6%) and Italy (down 38.5%).

Stabilization of growth in the emerging automotive markets

- **China:** Among the emerging automotive markets, China experienced surging growth in 2009-2010. It will return to a more stable pace of growth, around 6%, in 2012-2013. With vehicle ownership levels currently still below 5%, China has very strong growth potential.
- **India**: The automotive market is still quite modest (2.1 million vehicle registrations in 2012) and an annual growth of around 5% is expected in 2012-2013.
- **Brazil:** The market has been stimulated this year by a tax reduction for industrial products. Growth is expected to reach 7% in 2012 before stabilizing at around 4% in 2013.
- **Russia:** The outlook for the Russian market is also good, with vehicle ownership levels of around 25% and an aging stock of vehicles (over 10 years on average). Euler Hermes expects to see growth of 11% in 2012 and 5% in 2013.
- **Turkey:** Due to its high dependence on the euro zone, Turkish automotive production has contracted by more than 10% in 2012. Its medium-term outlook nevertheless remains favorable, as vehicle ownership levels are currently at 10%.

Resurrection of the US automotive sector

While there is a real revival of the automotive sector in the United States, Japan's competitiveness is being hit by the rising yen.

- **United States:** The market has impressively continued the recovery started in 2009. Growth is expected to be 12% this year, and 5% in 2013. Although the number of vehicle registrations is still below the pre-crisis level, US manufacturers achieve good returns (4.7% in 2012, 5.5% in 2013). In the past two years, the sector has created 100,000 jobs – although the number of employees in the sector had been halved as a result of massive restructuring between 2000 and 2009.
- **Japan:** 2011 was a very difficult year for Japan, marked by the earthquake and tsunami, and automotive production declined dramatically. At the same time, the sector has been battling the rising yen since mid-2008, causing a sharp loss in competitiveness and the shift of production to the United States and Europe.

Europe has broken down

Falling vehicle registrations, overcapacity, an increased number of players: the European automotive sector – particularly in southern Europe – is currently experiencing the greatest difficulties. The market is expected to contract by 6% in 2012, and by a further 2%-3% in 2013. Production volumes are currently 20% below their pre-crisis levels, equivalent to a loss of 3.5 million units. This is an indication that the adaptations and restructuring needed by the sector are only just beginning.

- **Italy:** Production of private vehicles has halved since 2007.
- **Spain:** Spanish automotive production trends aligned with the European market, shrinking by 26% between 2005 and 2011. The market continues to decline and has more than halved, to 750,000 units, from its pre-crisis level.
- **France:** The collapse of the European market has also hit French manufacturers. Production of private vehicles has halved since 2005, equating 1.6 million units in 2012. “Despite the relocation and concentration of production, the profitability of French manufacturers continues to decline (1% in 2012, 2% in 2013). The time has come to adapt fixed costs to the volumes produced,” explains Yann Lacroix, the head of sector analysis at Euler Hermes.
- **Germany:** Throughout Europe, only German production is doing well. It remains at virtually the same level as before the crisis, although possibly slowing slightly due to the economic conditions in Europe. The highly profitable German manufacturers, bolstered by their premium positioning, are offsetting the decline in the European market through their international activities, reflected in particular in their strong growth in China and the United States (Germany’s first and second largest markets, with 2.7 million and 1 million units respectively).

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