Analyst Note>

Autofacts®

pwc

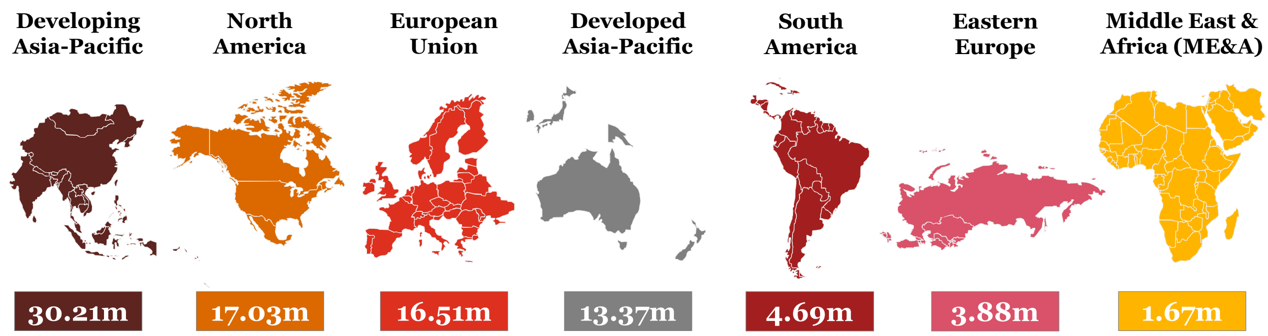
January 2014

Quarterly Forecast Update

A happy new year for the industry

The European Union is starting to show signs of growth… capacity is expanding in North America and developing Asia-Pacific… improvement in economic conditions has led to gains in consumer confidence…
These are all positive indications of what's to come for the industry in 2014.

Global: Regional Assembly Topline Outlook
2014



Source: Autofacts 2014 Q1 Data Release

Positive outlook for 2014

While much of 2013 was centered around lingering questions of when the European Union would turn itself around, 2014 appears to be the year where most regions will show year-over-year (YoY) growth. The lone exception continues to be the developed Asia-Pacific region, which is forecasted to decline ~1.5% in 2014. Recent announcements to remove significant capacity in South Korea, Japan and Australia have long-term implications, but the recent weakening of the Yen should help buoy Japanese assembly in the near term.

Looking at the global topline, Autofacts is forecasting light vehicle assembly to reach 87.4m units in 2014 for increase of 5.8% from 2013. The European Union is forecasted to grow by 3.6% – a slower rate than the global topline, but growth itself is significant nonetheless as it would represent a turning point for the struggling region. Accelerated growth is anticipated to begin in 2015 and onward.

Another major story line of 2013 was the continued comeback of the North American market. 2014 promises to be another strong year for assembly, albeit at a slightly slower rate of growth. Autofacts is forecasting North American assembly to reach just over 17m units in 2014, representing a YoY increase of 4.2%, due primarily to increased consumer demand and new capacity being added.

It should come as no surprise that growth within the developing Asia-Pacific region will continue at a feverish pace, led by additional assembly and capacity investment in China. The region is expected to reach an impressive 30.2m units of assembly in 2014 – a YoY increase of 11.6%. China alone is forecasted to contribute 20.8m units, or 24% of the global assembly topline growth in 2014, further solidifying itself as the world's most important automotive market. With such a positive outlook, 2014 is shaping up to be a good year indeed for the industry.

For information regarding our products and services please visit us at www.autofacts.com

Developing Asia-Pacific

China and India

2013 Key Statistics (YTD through November)	% Change (YoY)
China light vehicle sales	+14.2%
China light vehicle assembly	+13.5%
India light vehicle sales	-7.6%
India light vehicle assembly	-3.7%

China Sales

The Chinese market continued to grow at a robust pace, even amidst the economic uncertainty experienced in pockets globally. After scant growth in 2011 (1.3%) and healthy increase in 2012 (6.5%), China was expected to enter into a more moderate phase of growth. 2013 surpassed these tempered expectations with 14.2% growth through November 2013. The annual growth number is expected to climb past 15%, as December sales are generally strong for the market. This robust growth is a result of several positive factors, including the return of Japanese brands after the territorial dispute in the second half of 2012. The top three Japanese brands saw healthy sales gains for domestically-produced vehicles, with Honda, Nissan, and Toyota growing 20.5%, 18.0% and 9.2% respectively. The growing working class has also translated into more first-time buyers and upgrade buyers into showrooms.

As the Chinese market matures, so too will consumer preferences. To keep up with heightened expectations, OEMs have continued to launch new models in the market, even globally debuting select models in China. This diversification of offerings, as well as real estate purchase limitations in select cities, is driving more buyers to invest in more expensive new vehicles going forward.

China Assembly

Light vehicle assembly volume is expected to grow 12.1% to reach 18.7m units in 2013. For 2014, Autofacts is forecasting growth of 11.3%, reaching 20.8m units. Much of this expected increase will be supported by the increase in domestic demand. SUVs and MPVs are the two fastest growing segments due to the shifting lifestyles of the average Chinese buyer. Correspondingly, we anticipate that production of these vehicles will grow at a quicker rate through the forecast window.

India Sales

For the first time in 11 years, India's new vehicle sales saw a decline in volume in 2013, despite attempts to jumpstart the market with all-new models, early product refreshes, and generous incentives. Passenger vehicle sales fell again in the month of December, consistent with the weak performance on the whole in 2013. Part of the decline was due, at least in part, to a 3% rise in excise duties on utility vehicles, which had a negative impact on the otherwise popular SUV segment. High financing rates, rising fuel prices, price hikes due to the devalued Rupee, and an increased overall cost of ownership are also existing, discouraging factors for potential buyers.

Light commercial vehicles (LCVs) saw a similar fate, suffering from a lack of industrial mining activity and stalled infrastructure projects, falling by 15.6% for the full year.

In the near term, an immediate turnaround in the Indian auto industry is not expected without policy corrections and stimulus programs aimed to revive the struggling market. National elections are expected in May 2014 and a change in the political environment could boost business and consumer sentiment, provided stability will come with the new government. Key political issues that could impact the future of the industry include infrastructure development, reconsideration of their tariff structure, and recalibration of central bank rates.

India Assembly

To keep pace with slowing demand and bridge the gap between sales and output, many leading OEMs scaled back production, and block closures (akin to line closures) have become a regular occurrence. Over the past nine months, there have been over a dozen block closures across factories, along with 75 to 80 no-production days to avoid significant inventory accumulation, according to industry estimates. This has led to a decline in inventory and a corresponding jump in excess capacity to record highs. Manufacturers are staying afloat with production cuts and re-thinking future investment plans, but the short-term outlook remains tenuous at best.

Given the current and short term conditions in the market, the market is expected to remain beleaguered until the latter half of 2014, when a recovery can begin to take shape. As such, we forecast a market recovery beginning in the second half of 2014 for a slight growth of 3.5% in assembly for 2014.

....

North America

2013 Key Statistics	% Change (YoY)
[redacted]	+7.5%
Canada light vehicle sales	+4.0%
[redacted]	
Regional assembly	+6.0%

Sales

The North American markets all saw strong results in 2013, with light vehicles sales reaching 15.5m units. 2013 marked the US's fourth straight year of recording increases in sales of over 1m units. While Autofacts anticipates a continuation of the positive sales growth for 2014, it is expected to be at a slower pace, reaching 16.2m units.

Canadian sales also enjoyed a banner year, reaching a new record high as it surpassed the 1.7m units benchmark for 1.74m units. This positive trend is expected to continue into 2014 for yet another record year at 1.76m in sales.

Mexico returned to over 1m units of sales after four years below this mark, reaching 1.1m units of sales for new light vehicles. As with Canada, Mexican sales are expected to continue further in 2014 by an additional 50k units and inching towards the historical high for the region.

Assembly

Overall, North American assembly cleared 16m units in 2013 for the first time since 2002, buoyed by impressive growth in both the US and Mexico. The US had the largest assembly gains both on a raw volume and percentage volume YoY for 2013, but Mexico will take the lead, percentage wise, in the mid to long term range. Meanwhile, Canadian assembly saw a YoY decline and is forecasted to decline further throughout the forecast window. For 2014, Autofacts forecasts the region to top 17M units in 2014 and being to challenge the historical high assembly set in 2000.

EU+EFTA

2013 Key Statistics	% Change (YoY)
EU+EFTA new car registrations	-1.8%
EU+EFTA LCV registrations	-1.6%
EU regional assembly	+0.2%

Sales

Against the odds, 2013 turned out to be a better year than expected for the European Union. Registrations began to show signs of growth early on in the second half of the year, but it was the pace of recovery that was impressive, growing at a rate of 2.7% in Q3 and ~5.7% in Q4. Overall, EU+EFTA new car registrations for the full year fell to 12.3 units. Though some markets are still struggling – most notably France and Italy – the region seems to be on the road to a recovery after six consecutive years of market deterioration. Sales of light commercial vehicles (LCVs) also turned out better than originally feared with an estimated -1.6% decline to 1.42m units. The lower rate of decline helped the market narrowly avoid falling below the previous low point experienced in 2009.

Despite the relatively positive developments in the second half of the year, EU+EFTA markets still face a host of challenges and uncertainty. Continuing fiscal woes remain for a number of markets while unemployment is still rising, expected to peak in early 2014. These lingering concerns keep the forecasted growth for 2014 at a lower rate of just over 3% for the full year for 12.7m units. As conditions stabilize, we expect the pace to accelerate in 2015 to 5.5% YoY growth. These projections are similar for the LCV market with growth of 3.4% and 7.3% for 2014 and 2015, respectively.

Looking ahead into the mid- to long-term range, there are several areas that provide upside potential, which is best illustrated by the strong recovery now being seen in some of the markets that were hardest hit during the financial crisis and recession. Portugal has now seen seven consecutive months of growth for a 10.9% increase for the full year. Hungary grew by 14.6% and Greece by 8.7% in the second half, albeit from exceptional lows.

Additionally, pent-up demand is increasing after years of weak consumer sentiment. Once businesses and consumers are more confident that unemployment concerns are subsiding and economic indicators continue improving, this pent-up demand could drive a stronger, sustained recovery for the market as whole.

Assembly

Assembly in 2013 was flat compared to 2012, owing to a strong showing in the final months from a number of countries, including Germany in particular. This outperformance was supported by both the improving demand situation and the increase in exports to major markets of the US, China and Turkey. Going forward, light vehicle assembly should be more closely aligned with regional EU+EFTA demand, increasing to 16.5m units in 2014 and 17.4m units by 2015. This represents a growth rate of 3.6% and 5.6% for the next two years. Recent announcements of assembly localization should increase both volume and plant utilisation even as exports stabilise.

Developed Asia-Pacific

Australia, Japan and South Korea

2013 Key Statistics	% Change (YoY)
Australia light vehicle sales	+2.2%
Japan light vehicle sales	+0.1%
South Korea light vehicle sales	-2.7%
Regional assembly	-2.8%

Australia

In 2013, light vehicle sales are up 2.2% from 2012 to reach 1.1 mfor a new record in Australia. Popularity of small cars and SUVs, especially small SUVs, continued to drive sales, with a combined market share of 53% in 2013. Meanwhile, mid-to large size sedans, particularly domestically built models, have struggled to regain the volumes since the emergence of more popular sectors. This is a contributing factor to the exit of major manufacturing operations in the market, and further reduction of automotive assembly is expected in the mid- to long-term range. OEMs are expected to increase import volumes by leveraging existing assembly capacity elsewhere and making Australia an export-based market.

Japan

Light vehicle sales in Japan were relatively flat YoY, though the second half of the year brought signs of economic recovery and hope that a market revival may be underway. Positive economic indicators and a slew of attractive mini vehicles have helped keep the market from slippage. Mini vehicles have surged in recent years with lower cost of ownership and lower taxes. In 2013 alone, the segment grew by 7% and now makes up nearly 40% of the total market. Though select taxes will increase on minis in 2015, they should remain popular as new bodystyle variants are given the mini treatment.

Looking ahead, sales volumes are expected to take a hit with a hike in the national sales tax rate from 5% to 8%, effective April 2014. In the mid- to long-term range, the market is expected to continue shrinking with an aging and urbanized population. Though economic conditions and consumer sentiment may improve with the 2020 Tokyo Summer Olympics on the horizon, but whether this will have any marked impact on the automotive industry is yet to be seen.

Light vehicle assembly volumes in Japan in 2013 remained above 9m units in spite of the slight decline in export volumes due to aging of major export models and continuing assembly transfers. As automakers continue shifting production to overseas markets, particularly to North America, a decline in assembly volumes in Japan is expected for 2014 and beyond. Additional programs are expected to be transferred in the mid- to long-term range, prompting Japanese OEMs to reduce capacity and reconsider their global footprint. Further reduction in capacity will be needed if current utilisation rates of ~90% are to be maintained.

South Korea

The South Korean automotive market has been fairly stagnant for the last four years, hovering around the 1.3m unit mark. While sales of domestic brands have seen gradual decline, import sales volume has nearly doubled between 2010 and 2013 to 200k units as global OEMs capitalize on free trade agreements. Looking forward, the South Korean market will be limited by the same demographic issues facing Japan with an aging, increasingly urbanized population. As such, the mid- to long-term projections for the market will remain relatively flat.

Assembly volumes in South Korea decreased slightly YoY due to the decline of the domestic demand along with lower demand for South Korean brands in major overseas markets. Frequent strikes and steadily climbing costs of labour has also taken a toll, leaving the short-term assembly expectations flat at ~4.5m units for the remainder of the forecast window.

South America

2013 Key Statistics (YTD through November)	% Change (YoY)
Brazil light vehicle registrations	+7.5%
Argentina light vehicle sales	+4.0%
Venezuela light vehicle registrations	+7.7%
Regional assembly	+6.0%

Sales

After a decade of rapid expansion and growth, new vehicle registrations fell by- 0.9% in 2013 in Brazil. As with other market contractions, a myriad of factors had a compounding impact on consumer spending and thus, demand within South America's largest automotive market. A stagnant macroeconomic environment, high interest rates, increased transaction prices, and social unrest have all served to restrain consumer spending, particularly on big ticket purchases. Perhaps more concerning was that the IPI tax holiday officially expired in December, which should have pulled ahead sales. Instead, demand remained weak. Going into the new year, IPI increases will be phased in with an increase of 3% instead of the 7% hike as previously expected. The tax increase will likely serve to restrict sales even more in the coming year. With this in mind, sales in Brazil is expected to stay relatively flat YoY with just under 1% growth.

While new registrations struggled in Brazil, Argentina saw an impressive YoY increase in sales, thanks to the continued currency volatility with the Argentinean Pesos. As inflation soars past 26% and the peso reaches record lows near 11.6 pesos against the dollar, consumers increasingly seek dollars via the black market exchange, wherein those with dollars can exchange for pesos then invest in new vehicles. The used car market is also seeing a sales surge as vehicles are seen as safe investments against valuation losses. Barring wholesale overhaul of monetary policies, sales and registration of new vehicles is expected to continue growing, albeit at a slower pace of 8% in 2014.

Venezuela is still searching for direction in the wakeof Hugo Chavez's death, even with his hand-picked successor, Nicolas Maduro, elected into office in in December 2013. Monetary, fiscal and other macroeconomic woes have plagued the country, causing a logistical headache for companies needing to import and export goods, particularly in the manufacturing industry. With such pervasive instability, it's no surprise that vehicle sales have dropped, but the nearly 22% dip is still cause for alarm. With Maduro now elected into power, the hope is that wide-reaching policies can be enacted and bring much needed stability to the volatile nation. Thus, sales in 2014 are expected to improve on 2013's poor performance with a 6% YoY increase, but much investment and change is needed if the market is to return to the highs reached in the mid-2007.

Assembly

Though the political, social, and economic volatility across the region's major markets are cause for short term concern, the South American assembly is still expected to grow significantly in the long term. With marquee events like the World Cup in 2014 and the Summer Olympics in 2016 will require critical investments in infrastructure, which should improve Brazil's overall economic environment and spread to other regional markets. Overall, regional assembly output is expected to grow by just over 3% for 2014, but pick up in 2015 as recently announced capacity investments come online and regional assembly will surpass the 5m unit mark.

Eastern Europe

2013 Key Statistics	% Change (YoY)
Russia light vehicle sales	-5.4%
Turkey light vehicle sales	+9.7%
Regional assembly	+2.8 %

Sales

New vehicle sales and registrations within the Eastern European markets have varied by country. As Russia continued to slide, Turkey and other Commonwealth of Independent States (CIS) countries enjoyed strong sales results for 2013.

State-subsidized auto finance programs have reached the Ministry's targeted goal of reaching over 250k in sales up to December, but registrations remained on the downtrend for the full year in Russia, suggesting that the decelerating market is more than a momentary setback. In the short term, new vehicle sales in Russia will be hindered by slow economic development, which will translate into consumer uncertainty and hesitation.

With these ongoing concerns, Russia's market is expected to grow by a mere 1% to reach just under 2.8m units for 2014. Meanwhile, Turkey is enjoying a growth of 9.7% for the full year in 2013. This growth is expected to continue into 2014 with a 5.6% jump in sales.

Assembly

Though the Russian sales market remains weak, light vehicle assembly is expected to show growth, reaching 2.2m units in 2014 thanks to ongoing localization and increasing exports to neighboring countries. More production growth is expected in 2015 and beyond, with investments by global OEMs to shift towards a domestic production base. Assembly growth in Turkey has mirrored the performance of sales, and this is expected to continue into 2014 with an anticipated 9.5% growth in assembly and continued expansion throughout the forecast window. By 2020, assembly in Turkey is forecasted to surpass 1.5m units. Other developing CIS markets like Kazakhstan and Uzbekistan will see growth as well, attracting capacity investments from OEMs looking to captilise on the region's growth potential.

For information regarding our products and services please visit us at www.autofacts.com

Baseline assembly forecast data - Global

	Region[1]	2013	2014	2015	2016	2017	2018	Growth analytics (2013-2018) Unit diff.	% chg	CAGR	CTG %	Rank[2]
1	Asia-Pacific - developing	27,077,994	30,205,355	33,736,262	36,868,165	38,979,556	40,291,354	13,213,360	48.8%	8.3%	61.2%	1
2	North America	16,341,199	17,032,595	17,612,413	17,926,427	18,626,929	18,494,039	2,152,840	13.2%	2.5%	10.0%	3
3	European Union	15,940,178	16,513,312	17,441,548	18,407,004	18,760,059	18,952,558	3,012,380	18.9%	3.5%	14.0%	2
4	Asia-Pacific - developed	13,578,144	13,369,811	13,228,712	13,126,617	12,989,046	12,883,390	-694,754	-5.1%	-1.0%	-3.2%	7
5	South America	4,548,811	4,692,944	5,132,969	5,591,971	5,892,819	6,164,990	1,616,179	35.5%	6.3%	7.5%	4
6	East Europe	3,565,239	3,876,775	4,247,440	4,548,802	4,842,046	5,004,242	1,439,003	40.4%	7.0%	6.7%	5
7	Middle East & Africa	1,492,677	1,670,522	1,895,569	2,006,990	2,153,683	2,339,221	846,544	56.7%	9.4%	3.9%	6
	Global total assembly	82,544,242	87,361,314	93,294,913	98,475,976	102,244,138	104,129,794	21,585,552	26.2%	4.8%	100.0%	
	Global total capacity	106,975,130	114,772,195	122,162,357	126,922,877	127,461,782	129,027,217	22,052,087	20.6%	3.8%		
	Global excess capacity	24,430,888	27,410,881	28,867,444	28,446,901	25,217,644	24,897,423	466,535	1.9%	0.4%		
	Global utilisation (%)	77.2%	76.1%	76.4%	77.6%	80.2%	80.7%					

	Country	2013	2014	2015	2016	2017	2018	Unit diff.	% chg	CAGR	CTG %	Rank
1	China	18,716,752	20,837,996	23,430,871	25,475,949	26,854,181	27,630,674	8,913,922	47.6%	8.1%	41.3%	1
2	USA	11,019,796	11,748,055	12,230,029	12,529,623	13,049,780	12,913,982	1,894,186	17.2%	3.2%	8.8%	3
3	Japan	9,024,925	8,746,184	8,557,159	8,552,743	8,500,892	8,405,395	-619,530	-6.9%	-1.4%	-2.9%	52
4	Germany	5,673,325	5,747,464	5,919,504	6,008,901	6,130,927	6,201,093	527,768	9.3%	1.8%	2.4%	11
5	India	3,475,715	3,597,242	4,097,666	4,788,355	5,300,151	5,711,072	2,235,357	64.3%	10.4%	10.4%	2
6	South Korea	4,320,546	4,360,036	4,424,477	4,399,748	4,465,724	4,477,995	157,449	3.6%	0.7%	0.7%	20
7	Brazil	3,427,687	3,569,612	3,916,928	4,309,136	4,513,674	4,716,141	1,288,454	37.6%	6.6%	6.0%	4
8	Mexico	2,940,650	3,047,803	3,162,312	3,262,379	3,446,951	3,508,993	568,343	19.3%	3.6%	2.6%	9
9	Thailand	2,555,358	2,878,105	3,168,221	3,414,505	3,554,244	3,608,757	1,053,399	41.2%	7.1%	4.9%	5
10	Spain	2,132,684	2,258,371	2,557,919	2,811,138	2,841,754	2,802,837	670,153	31.4%	5.6%	3.1%	7
11	Russia	2,022,088	2,164,121	2,337,104	2,588,654	2,787,939	2,912,150	890,062	44.0%	7.6%	4.1%	6
12	Canada	2,380,753	2,236,737	2,220,072	2,134,425	2,130,198	2,071,064	-309,689	-13.0%	-2.7%	-1.4%	51
13	France	1,813,972	1,926,519	1,939,867	2,225,799	2,406,814	2,428,145	614,173	33.9%	6.0%	2.8%	8
14	United Kingdom	1,619,257	1,613,232	1,672,939	1,693,394	1,746,827	1,888,041	268,784	16.6%	3.1%	1.2%	16
15	Indonesia	1,121,623	1,427,943	1,491,521	1,570,782	1,605,916	1,641,120	519,497	46.3%	7.9%	2.4%	12
16	Turkey	1,067,072	1,167,974	1,307,760	1,359,796	1,438,727	1,463,382	396,310	37.1%	6.5%	1.8%	13
17	Czech Republic	1,042,113	1,132,382	1,180,287	1,186,859	1,195,817	1,211,257	169,144	16.2%	3.1%	0.8%	19
18	Iran	713,040	789,517	947,329	1,007,411	1,111,536	1,253,614	540,574	75.8%	11.9%	2.5%	10
20	Argentina	813,260	783,833	852,208	902,601	971,816	1,021,037	207,777	25.5%	4.7%	1.0%	17
20	Slovakia	822,037	831,563	797,388	864,482	816,672	795,496	-26,541	-3.2%	-0.7%	-0.1%	45
21	Malaysia	590,410	769,570	825,794	861,020	893,593	916,362	325,952	55.2%	9.2%	1.5%	14
22	Italy	571,866	611,551	845,632	909,035	900,106	866,149	294,283	51.5%	8.7%	1.4%	15
23	Poland	586,495	548,818	596,660	716,264	746,987	735,566	149,071	25.4%	4.6%	0.7%	22
24	South Africa	536,861	559,144	591,471	605,511	622,594	645,660	108,799	20.3%	3.8%	0.5%	24
25	Hungary	298,065	453,905	487,144	446,645	420,646	489,829	191,764	64.3%	10.4%	0.9%	18
26	Romania	394,954	372,907	354,981	348,323	347,065	362,884	-32,070	-8.1%	-1.7%	-0.1%	46
27	Taiwan	326,396	369,340	360,810	370,911	370,254	369,817	43,421	13.3%	2.5%	0.2%	33
28	Belgium	446,079	414,589	299,944	307,849	318,574	345,753	-100,326	-22.5%	-5.0%	-0.5%	49
29	Uzbekistan	269,385	265,026	286,384	286,704	277,087	275,112	5,727	2.1%	0.4%	0.0%	42
30	Morocco	156,013	230,199	240,899	249,353	247,810	245,332	89,319	57.3%	9.5%	0.4%	26
31	Sweden	141,248	140,889	220,177	252,191	256,640	257,783	116,535	82.5%	12.8%	0.5%	23
32	Colombia	151,126	174,995	184,907	188,232	197,079	204,471	53,345	35.3%	6.2%	0.2%	31
33	Pakistan	145,507	162,790	175,551	176,215	181,456	187,252	41,745	28.7%	5.2%	0.2%	34
34	Australia	232,673	263,591	247,076	174,126	22,430	0	-232,673	-100.0%	-100.0%	-1.1%	50
35	Portugal	145,530	134,382	150,889	155,419	151,052	173,639	28,109	19.3%	3.6%	0.1%	37
	Top 35 total assembly	81,695,261	86,336,385	92,079,880	97,134,478	100,823,913	102,737,854	21,042,593	25.8%	4.7%	97.5%	
	Top 35 (% of global total)	99.0%	98.8%	98.7%	98.6%	98.6%	98.7%	97.5%				

[1]Developed Asia-Pacific includes Australia, Japan, South Korea | Developing Asia-Pacific includes China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan, Thailand, Vietnam

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

Source: Autofacts Global Light Vehicle Assembly Outlook 2014 Q1 Data Release (Updated January 01 2014)