Creative Global Investments

Tuesday, November 24th 2015

Sabine CJ Blümel
Automotive Research

Creative Global Advisers (UK) LLP

sblumel@cg-inv.com
Tel +44 7785 301 588

Creative Global Investments LLC
115 East 57th Street
11th Floor
New York, NY 10022
Tel +1 212 939 7256

Creative Global Investments/Europe
5, op der Heed
L-1709 Senningerberg
Luxembourg
Tel +352 2625 8640

Objectivity

Integrity

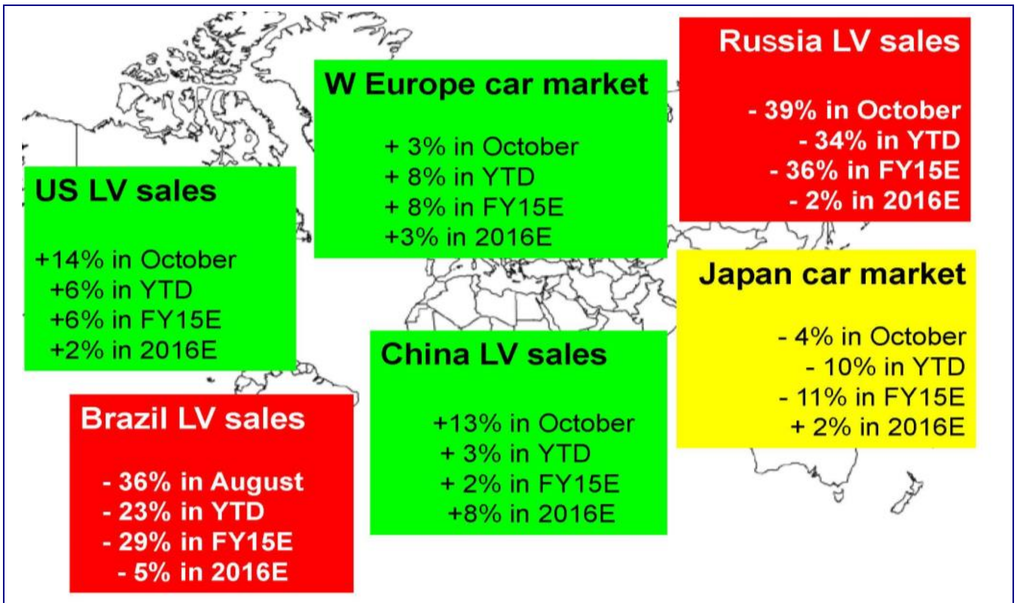
Creativity

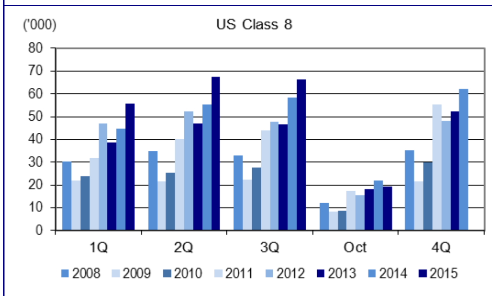
Global Automotive Demand Atlas

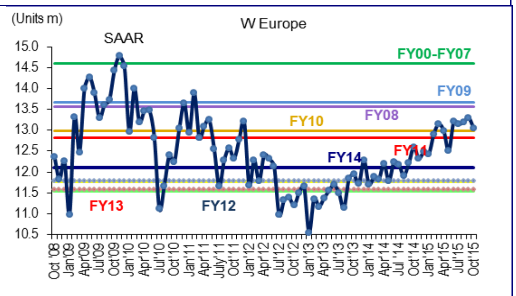
November 2015 edition

Global light vehicle markets

+5% in October
+2% in YTD
+1% in FY15E
+4% in 2016E







Contents

Global LV markets

+5.1% in October

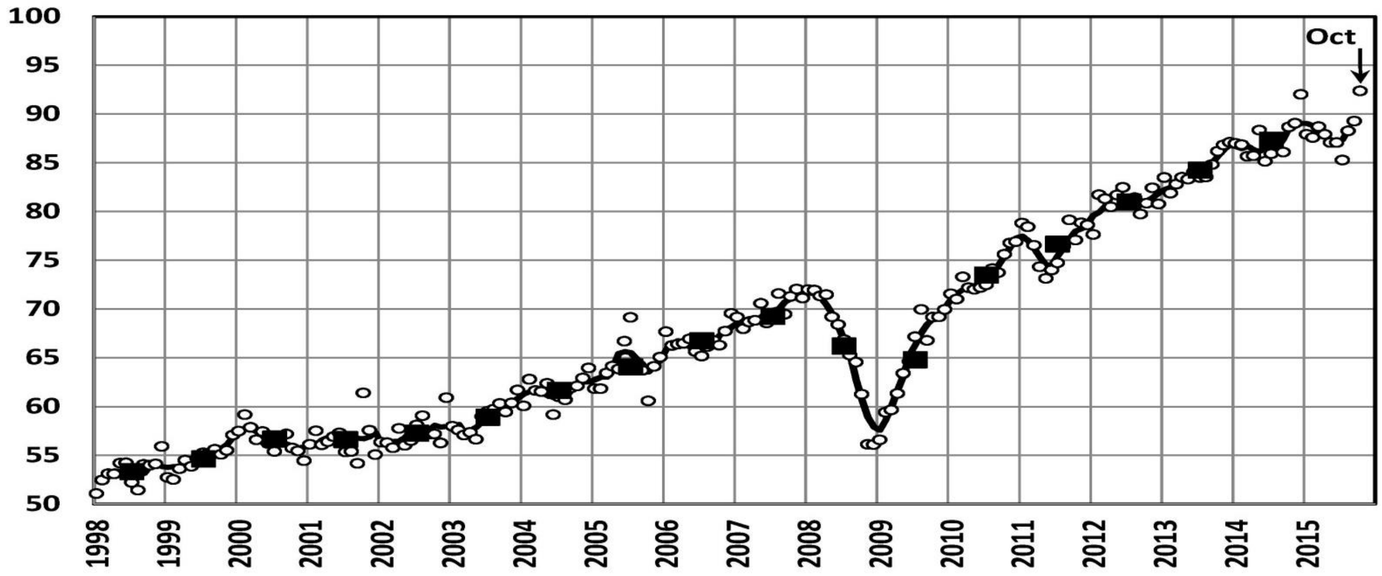
+1.5% in YTD

In October, global light vehicle sales increased 5.1% yoy to 7.62m, after 2.9% in September, resulting in a 1.5% increase to 73.26m YTD. LMC Automotive (LMCA) calculate that underlying demand continued to strengthen in October, with a SAAR (seasonally adjusted annualised rate) of 92.4m units/year, up 4.0% from 88.8m in September, resulting in a YTD SAAR of 88.2m, up less than 1% from FY14's 87.4m. The recovery of the October SAAR to levels last seen in December (92.1m) and January (89.4m), is due to a strong recovery in China, supported by continuing strong performances in the US and Western Europe.

+1.0% in FY15E

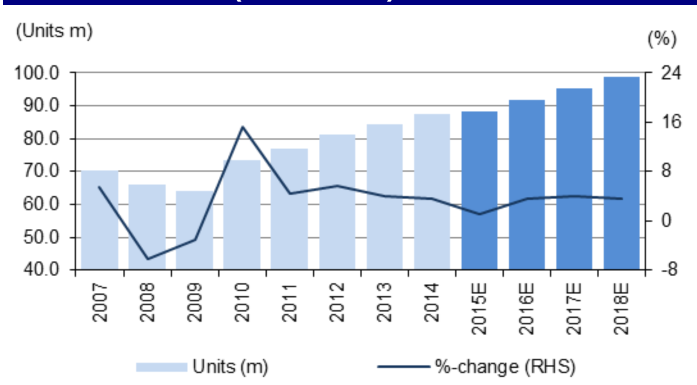
For FY15E, we expect a global LV market of 88.4m, implying an increase by 1.0% or 0.9m; this is considerably weaker than FY14's growth by 3.7% and FY13's 4.0%. In 2016E-18E, global LV sales are expected to grow by just under 4% p.a.

Global LV sales – monthly SAAR (1998-Oct'15)



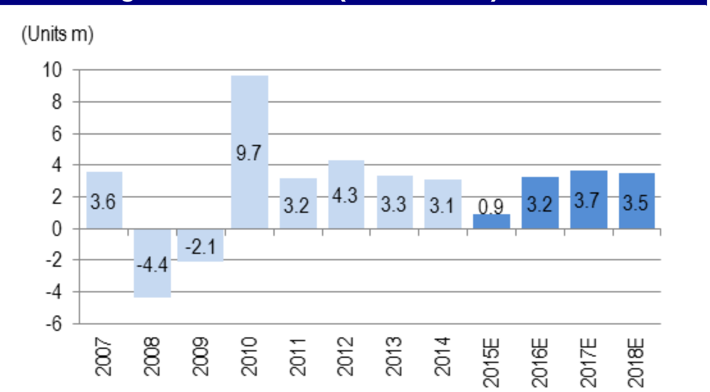
Source: LMC Automotive

Global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

Growth - global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

US LV sales

+13.7% in October

+5.9% in YTD

In October, US LV sales increased 13.7% yoy to 1.45m units, after 15.8% in September, resulting in a 5.9% increase to 14.49m YTD. Adjusted for the number of selling days (28 in Oct'15 & 27 in Oct'14, 25 in Sep'15), the market was up 9.6% yoy and down 9.9% mom in October and up 5.5% yoy in YTD. According to LMCA, the October SAAR of 18.2m was up 1.7m yoy and 0.1m from 18.1m in September.

Sales boom driven by consumers….

…and trucks

Retail sales have been the US market's dominant driver since May 2012. In October, the retail SAAR of 14.9m was up 1.4m yoy and down 0.5m from September's record 15.3m. Low gas prices have continued to fuel the **outperformance of light trucks** that advanced 21.3% in October and 12.0% in YTD, to 8.26m or 57.0% of total market. Sales of SUVs were up 27.6% in October and 15.3% YTD, at 5.29m or 36.5% of the market. The improving mix has despite higher discounting, resulted in a further increase in average transaction prices by 1.9% yoy to USD 33.8k in October, after having hit an all-time record of almost USD 34.4k in December. (See pp.4-5.)

Big Four

At the **GM group**, sales increased 15.9% in October, resulting in a 5.3% increase to 2.56m YTD or a 17.7% share. Sales at the **Ford group** increased 14.1% in October and 5.6% to 2.16m or 14.9% YTD, driven by the new F-150 pickup truck and CUVs. **Toyota's group** sales jumped 13.0% in October and 4.9% in YTD, to 2.07m or 14.8%. **FCA** generated increases of 14.5% in October and 7.1% in YTD to 1.86m or 12.9%.

So far, VW sales propped up by discounts

Through aggressive marketing and despite stop-sale orders for the 2.0L TDI versions of the Beetle, Golf, Jetta and Passat, the VW brand managed to generate flat October sales, after a -2.5% decline in 1-3Q15. According to TrueCar the brand's incentive spending jumped more than 50% to an estimated USD 4k per vehicle. However, the (voluntary) stop sale of the VW group's 3.0L V6 TDI models since November 2nd should become a growing headwind, also for the premium brands Audi and Porsche, YTD sales of which were up 13.0% at 165.1k units and 11.1% at 43.4k units respectively.

+6.0% in FY15E

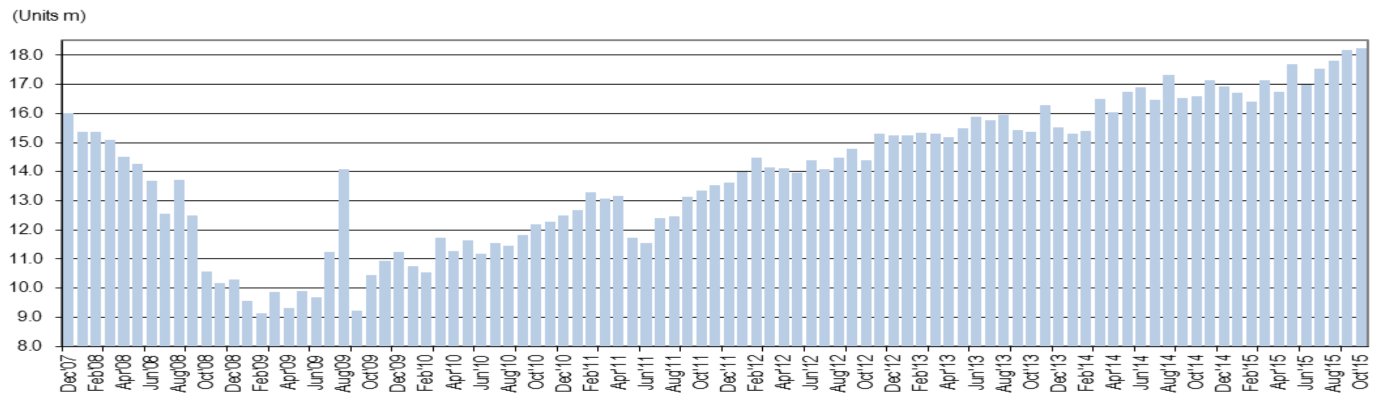
+1.7% in 2016E

In FY15E, the LVs market is expected to grow 6.0% to 17.48m units, the highest level since 2000 and for the first time exceeding 17m since 2001. Positive factors include continuing pent-up demand, the economic recovery, strong consumer confidence, and plunging gas prices. However, the LV market has become increasingly dependent on generous consumer credit conditions, with easy access and extended loan terms. The steady growth of the average term of loans and the rising share of loans with duration longer than 72 months is a growing concern and could hamper future sales growth.

Stabilisation from 2016E onwards

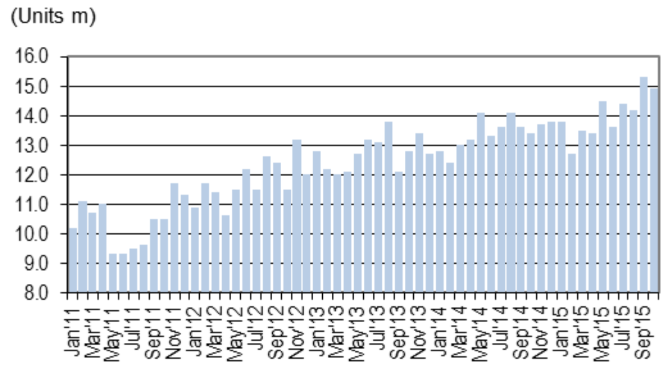
In 2016-18E, the US market is expected to stabilise at high levels, with annual growth rates of just under 1%; this is based on the assumption of GDP growing at an annual 2.7-2.8% and supporting factors such as replacement demand, growing household wealth, and new household creations.

US LV sales – monthly SAAR (Dec'07-Oct'15)



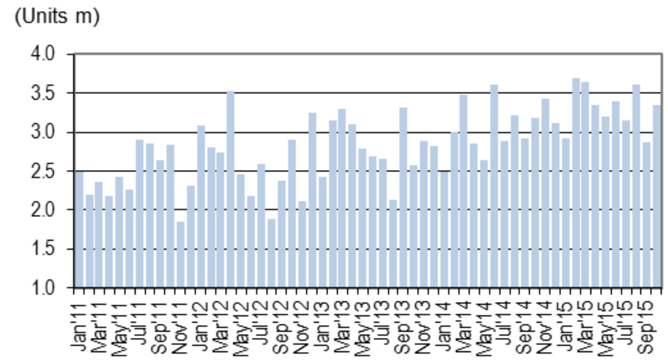
Note: The estimated seasonal factors for the SAAR calculations for July 2014 – June 2015 are restated due to the recent update of seasonal factors from the U.S. Bureau of Economic Analysis (BEA). Source: Autodata

US Retail LV sales – monthly SAAR (Jan'11–Oct'15)



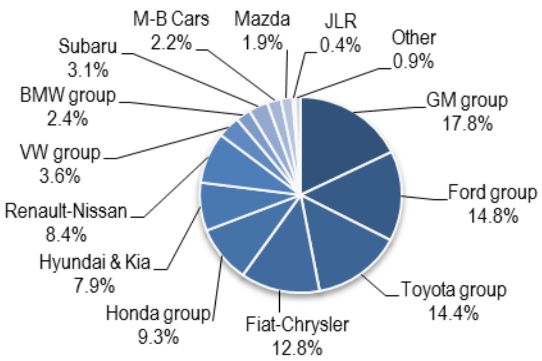
Source: *LMC Automotive*

US Fleet LV sales – monthly SAAR (Jan'11–Oct'15)



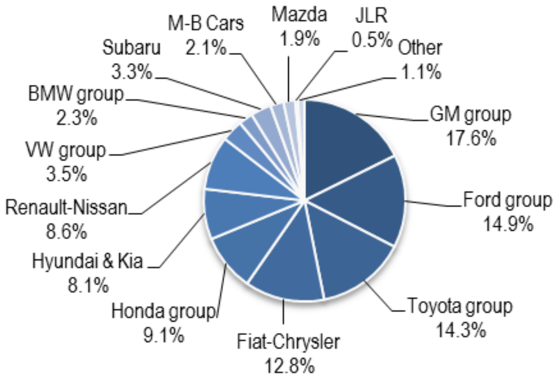
Source: *LMC Automotive*

US – LV market by OEM (FY14)



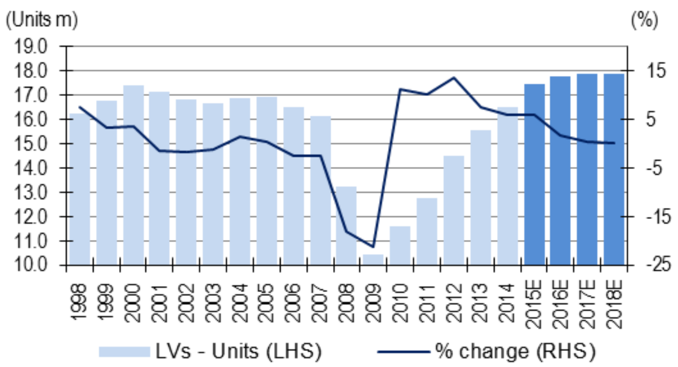
Source: LMC Automotive and CGI calculations

US – LV market by OEM (Jan-Oct'15)



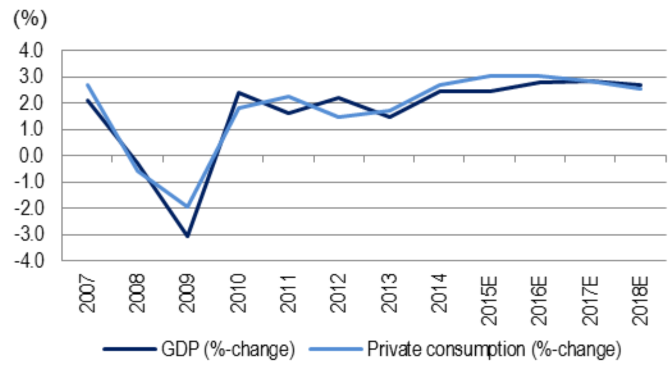
Source: LMC Automotive and CGI calculations

US LV sales (1998-2018E)



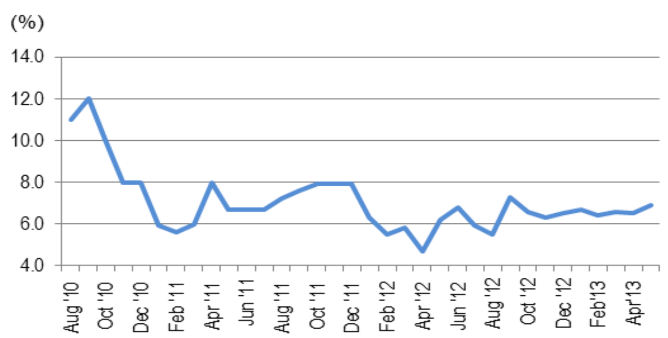
Source: LMC Automotive and CGI estimates

US – real GDP and private consumption (2007-18E)



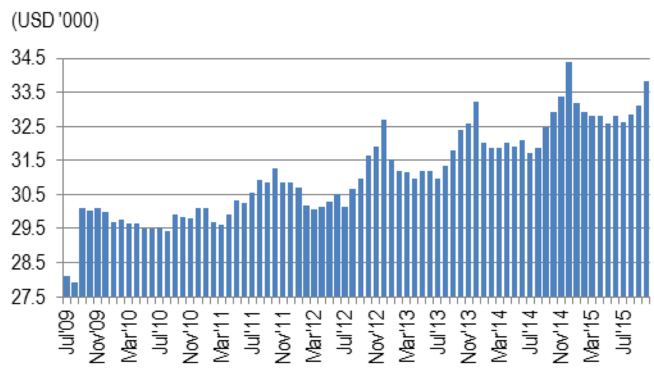
Source: Oxford Economic, IMF and CGI estimates

US LV – avge. discount from MSPR (Aug'10-May'13)



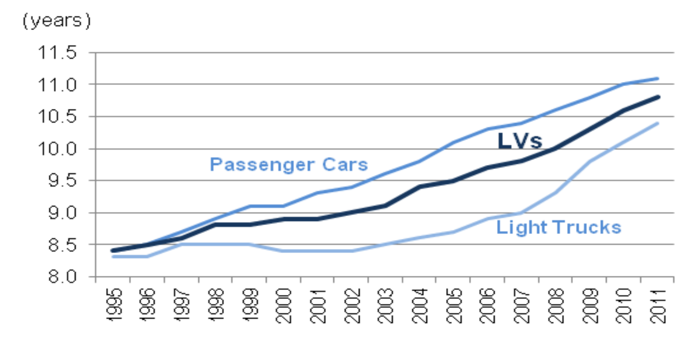
Source: TrueCar

US LV market – avge. transaction price (Jul'09-Oct'15)



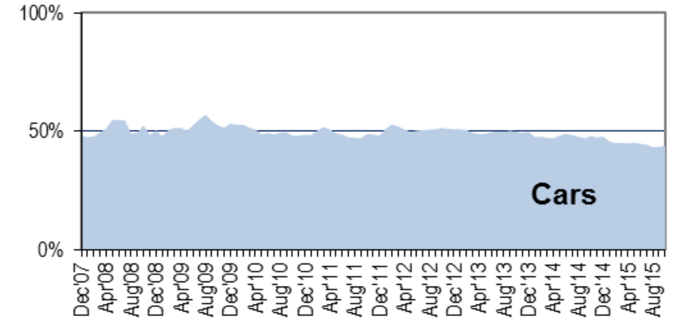
Source: PIN (Power Information Network by J.D. Power and Associates)

US LV population – average age (1995-2011*)



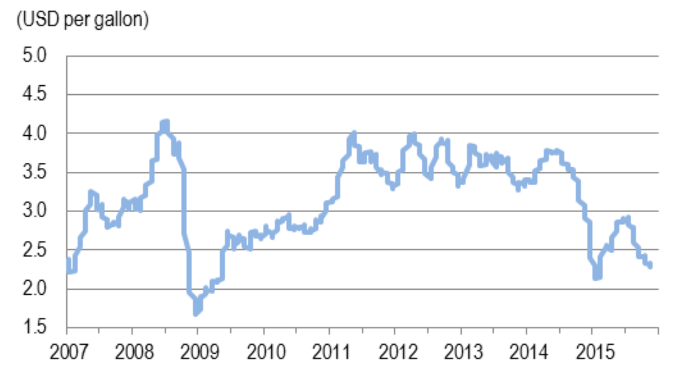
(*) July of respective year. Source: Polk

US LV sales - split cars & trucks (Dec'07-Oct'15)



Source: Autodata

US – Gas retail price (USD/US gallon) (Jan'07-Nov'15)



Weekly U.S. All Grades All Formulations Retail Gasoline Prices (Dollars per Gallon) Source: EIA

US – Diesel retail price (USD/gallon) (Jan'07-Nov'15)

Weekly U.S. Diesel (On-Highway) - All Types (Dollars per Gallon) Source: EIA

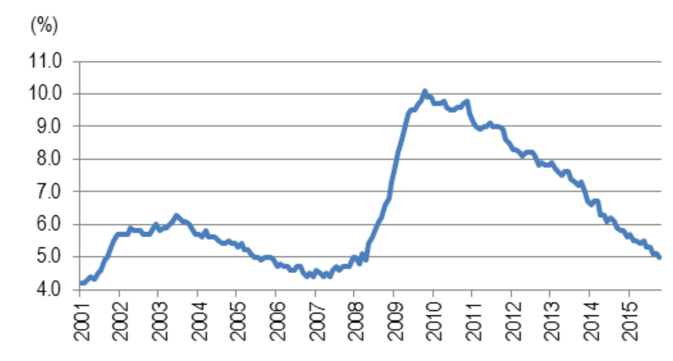
WTI crude oil (-5 years)

Source: tradesignalonline.com

Brent crude oil (-5 years)

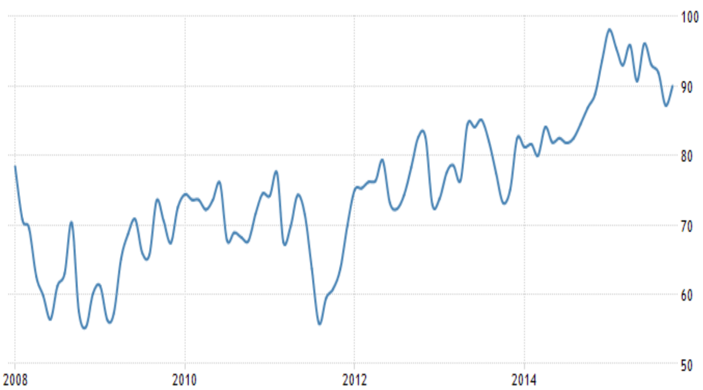
Source: tradesignalonline.com

US – Unemployment rate (Jan'01-Oct'15)



Source: Bureau of Labor Statistics

US – Consumer confidence (Jan'08-Nov'15)



Source: Thomson Reuters/University of Michigan

Western Europe car market

+2.5% in October

+8.1% in YTD

In October, WE passenger car registrations increased 2.5% yoy to 1.06m units, after +9.6% in September, resulting in an 8.1% increase to 11.10m YTD. In October, the SAAR weakened again, to 13.05m, down 3.0% down mom/from September's 13.29m, that had been the best result since February 2011 (13.86m). Over the past 34 months, the SAAR has improved by some 25%, from an exceedingly low SAAR of 10.55m in January 2013. Although YTD's SAAR of 13.02m was 7.0% better than FY14's 12.10m, it remained 10.8% below the long-term pre-crisis average of 14.6m units. (See p.7.)

All Big 5 advance strongly YTD

Germany +5.1%

France +5.7%

UK +6.4%

Italy +14.5%

Spain +20.5%

Germany, Western Europe's largest car market by far increased 1.1% in October and 5.1% to 2.67m YTD. YTD's SAAR of 3.21m, 5.9% better than FY14's 3.04m was less than 3% below the LT pre-crisis level of 3.3mm **French** car registrations increased 0.6% in October and 5.7% to 1.50m YTD. At 1.91m, YTD's SAAR remained 8.5% below the pre-crisis 2000-07 level of 2.09m. In **the UK**, the car market declined 1.1% in October and increased 6.4% to 2.27m YTD. YTD's SAAR of 2.53m was 5.0% above the long-term pre-crisis average of 2.45m units. YTD, **Italian** car registrations increased 14.5% increase to 1.33m and the SAAR of 1.56m, though up 15% on FY14, remained 33% below the 2.34m LT pre-crisis trend. In **Spain**, improving consumer confidence and the PIVE incentive scheme drove the car market's 20.5% increase to 0.86m units YTD. At 1.02m, YTD's SAAR remained 31% below pre-crisis trend. (See discussion for the Big Five on pp. 9-13.)

+8.1% in FY15E

+2.9% in 2016E

A weak euro and lower energy prices have greatly enhanced the macro-economic fundamentals In the Eurozone. After two years of contraction, GDP growth in the Eurozone is expected to accelerate from 0.8% in FY14 to 1.5% in 2015E. The UK economy is expected to decelerate moderately, from FY14's 3.0%. Growth in the WE car market is set to accelerate from 4.9% in FY14 to 8.1% and 13.08m in 2015E and to grow by 2.9% to 13.56m in 2016E. In FY15E, all major markets are expected to contribute to the 0.98m increase in unit sales, whereas in FY14, the UK, Spain and Germany had been the main contributors to the 0.57k increase.

Only limited reversal of collapse in pricing discipline in the short term

However, we continue to caution that the recovery in the WE car market after six years of recession is overshadowed by OEMs expecting to be able to increase pricing only slowly and indicating that discounts from sticker prices in excess of 10% are still widespread. Although the horrendous competitive pressures originated in the crisis-hit Southern European markets, they have been spreading to the better performing northern European ones, a trend that has intensified since mid-2012. In addition to record discounts, special deals and cheap financing, OEMs and dealers have increasingly resorted to tactics such as pre-registering.

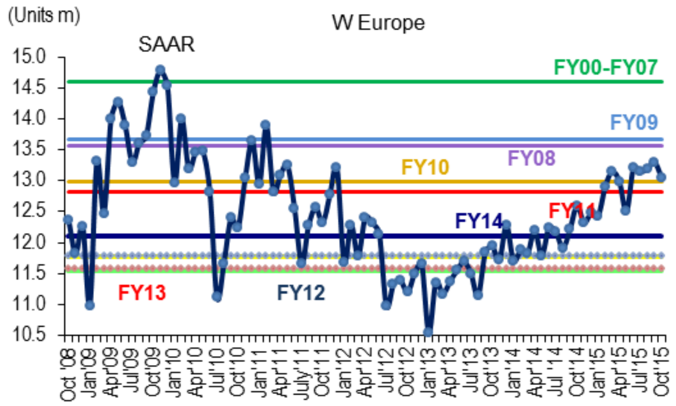
VW emission scandals should intensify again competitive pressure

This is the more the case as the VW group is seen and expected to continue to use aggressive marketing as a means to contain the erosion of market share as a result of the emission scandals. So far, the impact of the diesel scandal on VW group and VW brand sales in Western Europe is inconclusive which among other is attributable to delivery times of usually several weeks. However, going forward we expect an uphill struggle both for the VW group and brand as the scandal has now broadened from emission of air pollutants (NOx and PMs) of small diesel engines to CO_2 emission and thus fuel efficiency of diesel and petrol engines, the latter impacting TOC and taxation.

Polarisation in demand

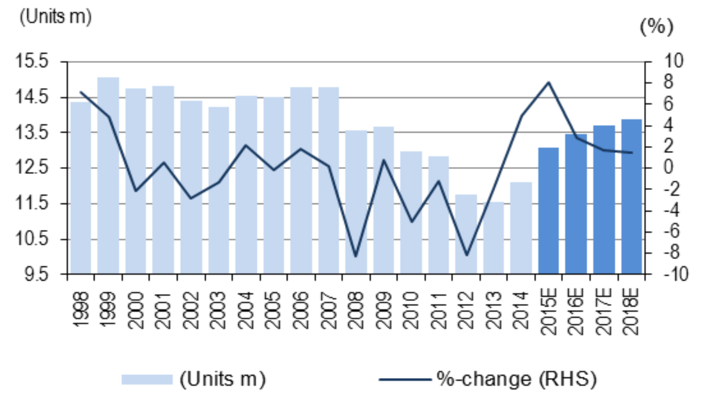
The trend of polarisation in demand into premium and discount brands and products has been intact for the past 20 years and intensified during the prolonged crisis. Driving forces have been the downsizing on the part of the premium brands and an improvement in quality of discount branded products.

W Europe – monthly SAAR[1] vs. trend (Oct'08–Oct'15)



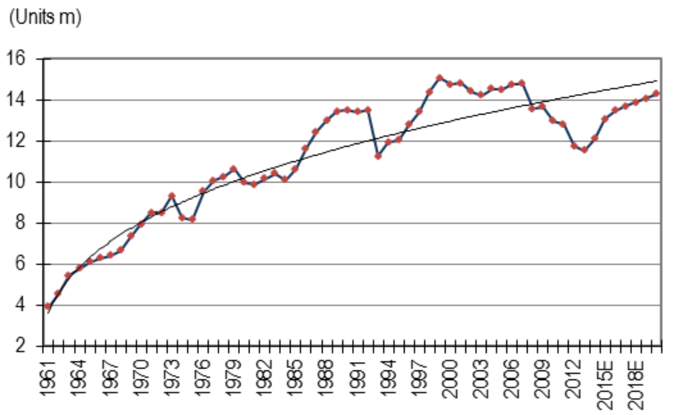
(1) SAAR according to calculations by LMC Automotive. Source: ACEA, LMC Automotive , CGI calculations

W Europe – pc registrations (1998-2018E)



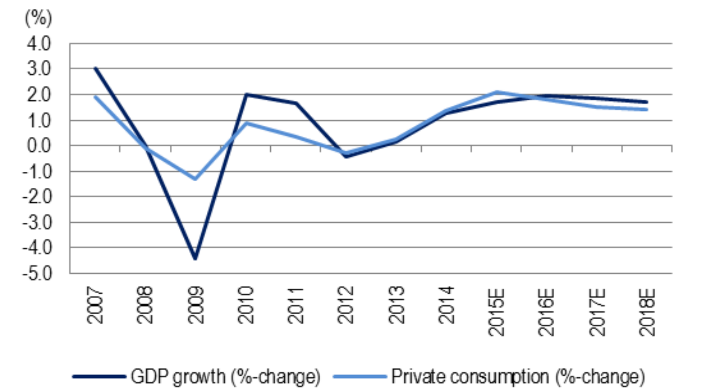
Source: LMC Automotive and CGI estimates

W Europe – pc registrations (1961-2020E)



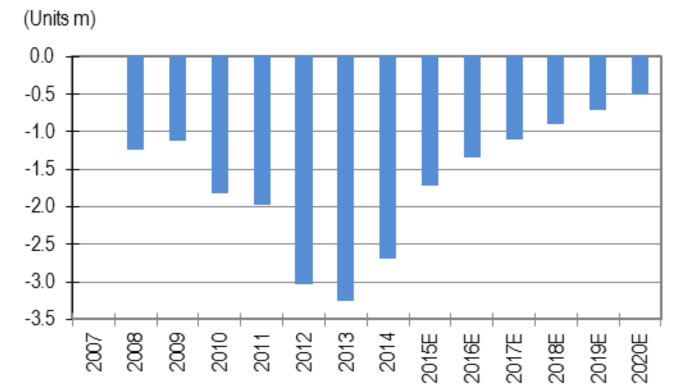
Source: ACEA, LMC Automotive and CGI estimates

W Europe – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

W Europe – depth of recession – 2008-20E volume decline vs. 2007



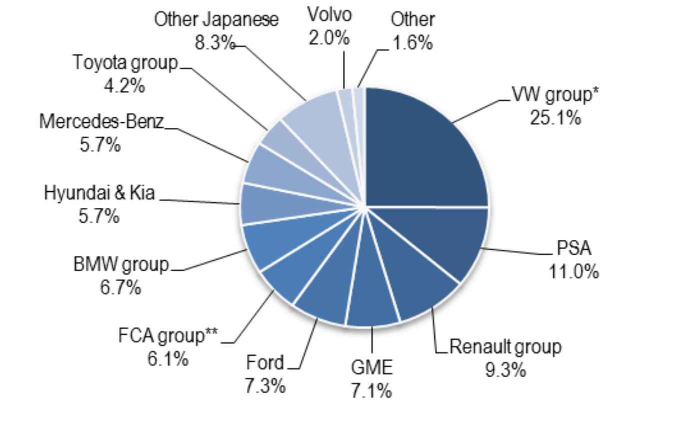
Source: LMC Automotive and CGI estimates

W Europe – current recession in historic context

	Depth[1] (Units m)	(%)	Duration (years)	Trend growth rate (%)
1970 - oil shock	-1.15	-12.4	< 3	5
Early 1980s recession	-0.75	-7.0	~ 6	3-4
1993 recession	-2.26	-16.8	~ 5	2-3
Current crisis (E)	-3.24	-21.9	**>~14**	**1-2**

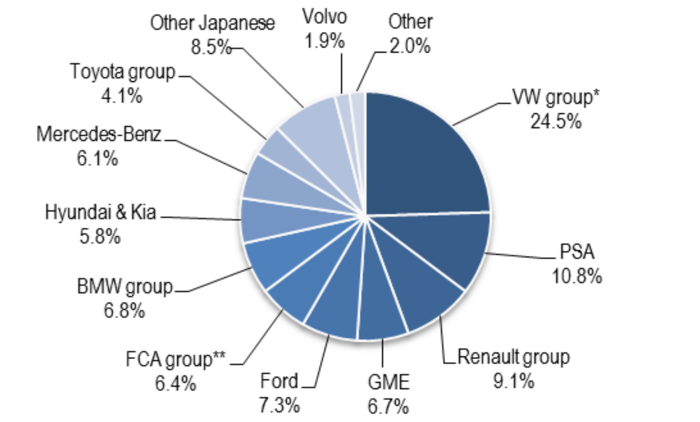
Source: LMC Automotive and CGI estimates

W Europe – pc market by OEM (FY14)



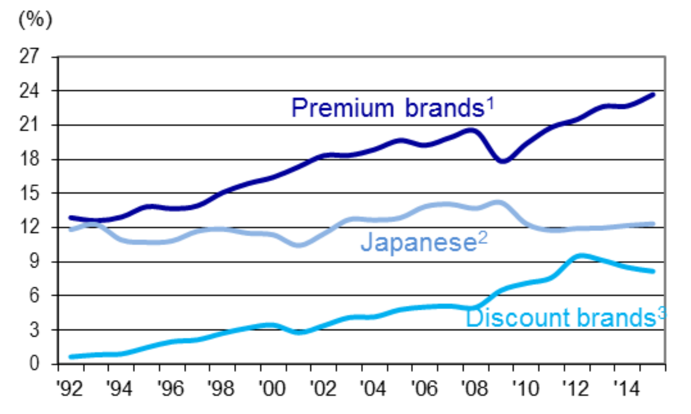
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: Association Auxiliaire de l'Automobile, ACEA and CGI calculations

W Europe – pc market by OEM (Jan-Oct'15)



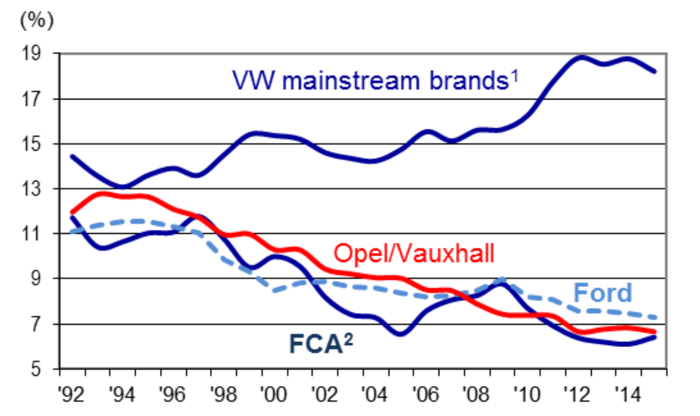
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: ACEA and CGI calculations

Premium brands, Japanese and discount brands – WE market share ('92-'15*)



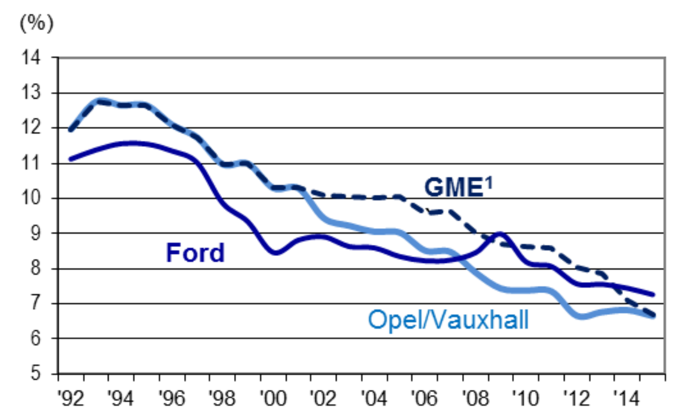
(1) Premium brands: BMW, Mini, Mercedes-Benz, Smart, Audi, Lexus, Porsche, Jaguar, Land Rover, Volvo, SAAB, DS and super-premium brands. (3) Discount brands: Kia, Hyundai, GM's Chevrolet, and Renault's Dacia. (2) Exl. Lexus (*) YTD=Jan-Oct. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calcs

Mainstream brands: VW group excl. Audi, Opel/Vauxhall, Ford, FGA – WE share ('92-'15*)



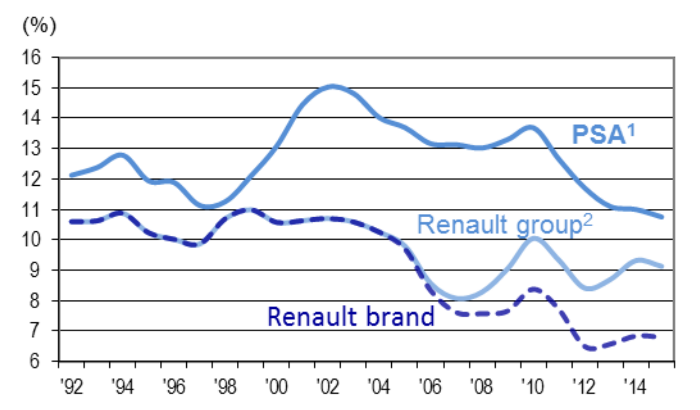
(1) VW mainstream brands: VW, Seat, Skoda. (2) FCA: Fiat, Lancia & Alfa Romeo. Since 2012 also Chrysler & Jeep. (*)YTD=Jan-Oct. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

Ford and GME – WE share ('92-'15*)



(1) GM Europe: Opel, Vauxhall, Chevrolet and other US GM brands; does NOT incl. SAAB. (*)YTD= Jan-Oct. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

PSA and Renault group – WE share ('92-'15*)



(1) PSA: Peugeot, Citroën & DS brands; (2) Renault group: Renault and Dacia brands. (*)YTD= Jan-Oct. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

Germany

+1.1% in October

+5.1% in YTD

In October, the German pc market grew 1.1% yoy to 278.4k, after 4.8% in September, resulting in a 5.1% increase to 2.67m YTD. This follows a 2.9% recovery to 3.04m units in FY14, after two years of decline. In October, underlying demand continued to strengthen, to a SAAR of 3.20m, up 0.5% mom/from September's 3.18m and remained 8.2% below July's 3.48m that had been the strongest month since February 2012's 3.49m. YTD, the SAAR was a strong 3.21m, 5.9% better than FY14's 3.04m and less than 3% below the 2000-07 LT pre-crisis level of 3.3m.

Retail share continues to decline

VW's aggresssive discounting since the scandal broke

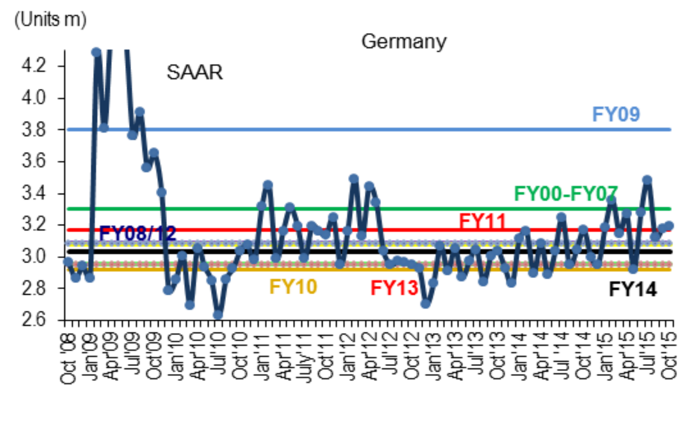
We understand that despite the solid recovery in the German market, until end of September when the VW emission scandal hit the news, the pricing improvement had been only moderate with discounts reportedly above 10%. In addition, the quality of the market has continued to deteriorate with fleet/business and pre-registrations driving sales; the retail share has fallen to well below 34% in October, from 36.2% in FY14. In addition, about one fifth of car registrations are pre-registered by dealers and then sold as 'used' cars at considerable discounts. We understand that VW has used aggressive discounting, in particular for the VW brand's smaller core models to limit loss in market share and is thus exacerbating the competitive environment.

+5.4 % in FY15E

+0.4% in 2016E

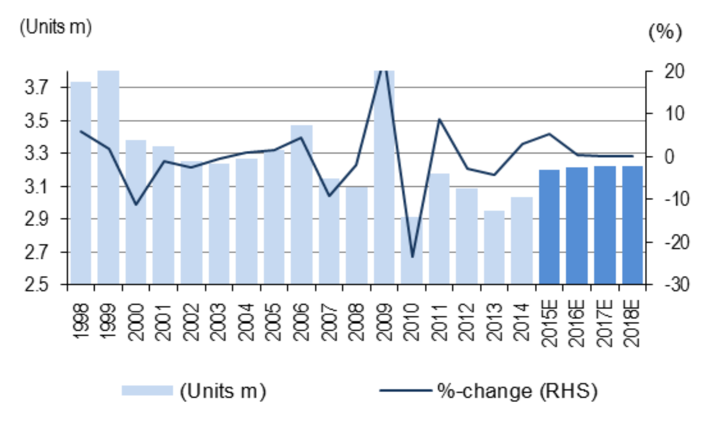
The YTD performance supports the expectation that in FY15E, the German market will grow 5.4% to 3.20m units. From 2016E onwards, the market should remain stable. Over the past 12 months, a dramatically lower oil price and a weaker euro have greatly improved Germany's macro-economic fundamentals. However, German GDP growth rates of 0.3% in 3Q15 and 0.4% in 2Q15 were only in line with that of the whole Eurozone, highlighting a limited upside potential. In FY15E, GDP growth is expected to remain similar to that of FY14's 1.6%. Furthermore, despite a tight labour market, rising wages and disposable income, consumer confidence has weakened, albeit from a 13-year high, most likely in response to perceived challenges from the refugee crisis.

Germany – monthly SAAR[1] vs. trend (Oct'08-Oct'15)



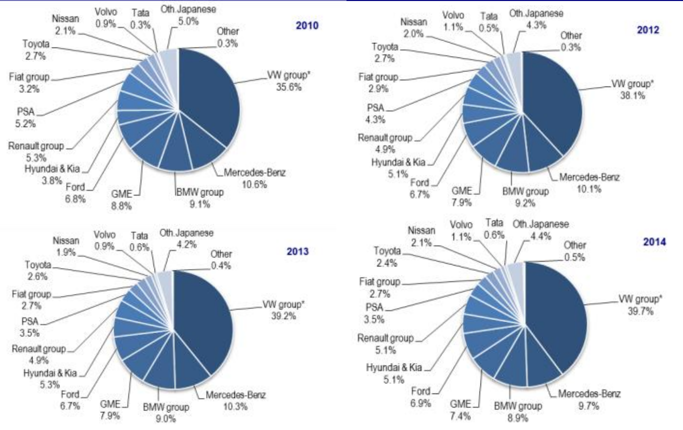
(1) SAAR according to LMC Automotive. Source: KFBA, LMC Automotive and CGI calculations

Germany – pc registrations (1998-2018E)



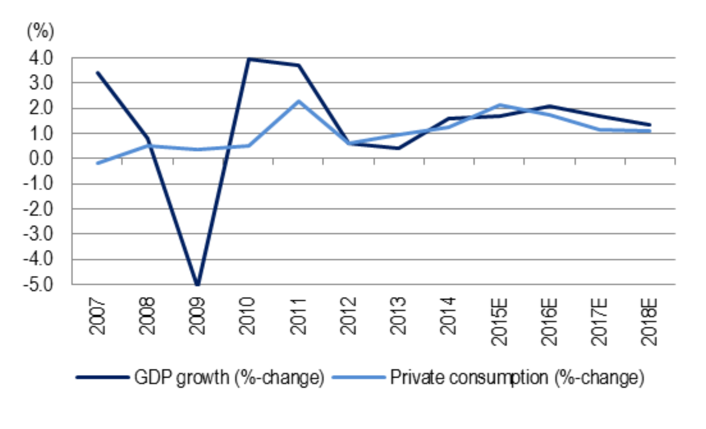
Source: KFBA, LMC Automotive and CGI estimates

Germany – pc market shares (2010-14)



(*) VW group incl. Porsche. Source: KFBA and CGI calculations

Germany – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

France

+0.6% in October

+5.7% in YTD

In October, French car registrations increased 0.6% yoy to 160.1k units, after 9.1% in September, resulting in a 5.7% increase to 1.50m YTD. However, adjusted for the number of working days, the yoy increase was 5.1% in October, after 9.1% in September. This follows a flat FY14 market, up 0.3% at 1.80m, and four years of decline.

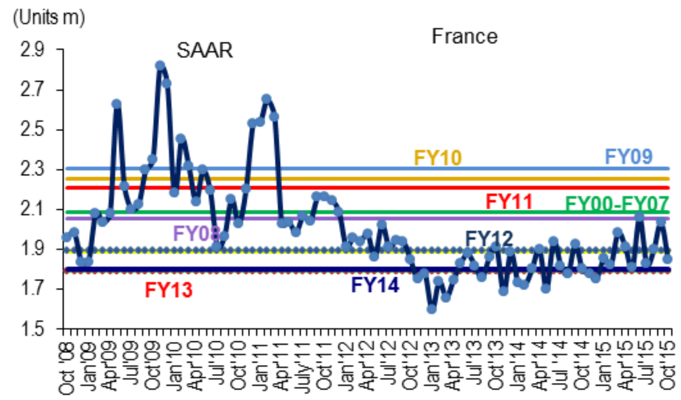
+6.7% in FY15E

+3.3% in 2016E

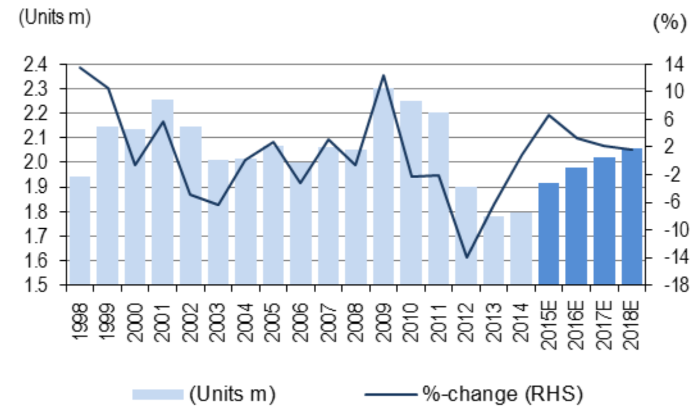
In October, underlying demand weakened again, to a SAAR of 1.85m, down 9.2% mom/from September's 2.03m, and remained 10.3% below June's 2.06m that had been the strongest month since December 2011 (2.09m). YTD's SAAR of 1.91m, though up 6.3% from FY14's 1.80m, remained 8.5% below the pre-crisis 2000-07 level of 2.09m. For FY15E, we expect the French market to grow 6.7% to 1.98m units and 3.3% to 2.02m in 2016E.

France's macro-economic credentials have remained mixed; in 3Q15, thanks to a pick-up in domestic demand, GDP accelerated again to 0.3%, after stagnation in 2Q15 and 0.7% growth in 1Q15, the latter being the fastest quarter since 2Q13. Indeed, a recovery in private consumption is set to result in a sharp acceleration in FY15E GDP growth to 1.3%, from just 0.2% in FY14. While unemployment has remained above 10%, low inflation is boosting disposable income this year.

France – monthly SAAR[1] vs. trend (Oct'08-Oct'15)



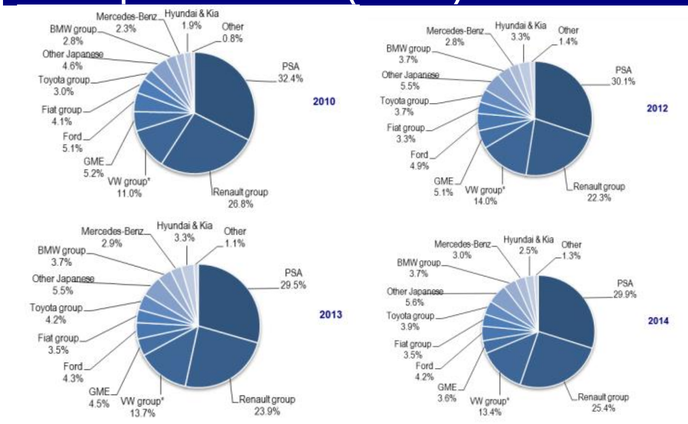
France – pc registrations (1998-2018E)



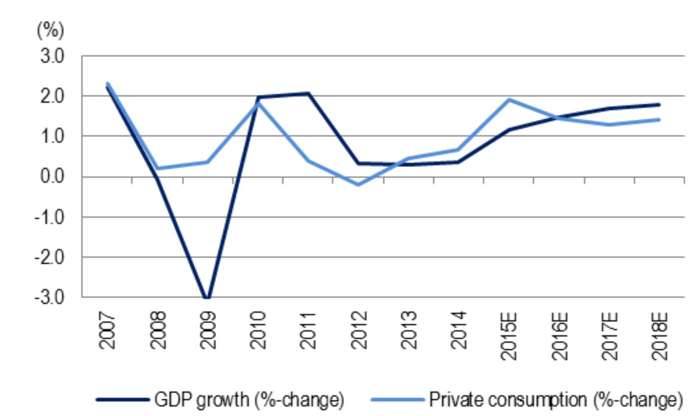
(1) SAAR according to calculations by LMC Automotive. Source: CCFA, LMC Automotive and CGI calculations

Source: CCFA, LMC Automotive and CGI estimates

France – pc market shares (2010-14)



France – real GDP and priv. consumption (2007-18E)



(*) VW group incl. Porsche. Source: CCFA and CGI calculations

Source: Oxford Economics, IMF and CGI estimates

Italy

+8.6% in October

+14.5% in YTD

In October, Italian car registrations grew 8.6% yoy to 130.1k units, after 17.1% in September, resulting in a 14.5% increase to 1.33m YTD. In October, underlying demand continued to strengthen to a SAAR of 1.57m, up 1.1% mom/from September's SAAR of 1.562m, but remained 8.5% below April's 1.72m that had been the strongest month since December 2011 (1.99m). YTD's SAAR of 1.56m was up 15% from FY14's 1.36m, though remained 33% below the 2.34m pre-crisis trend.

Things are looking up

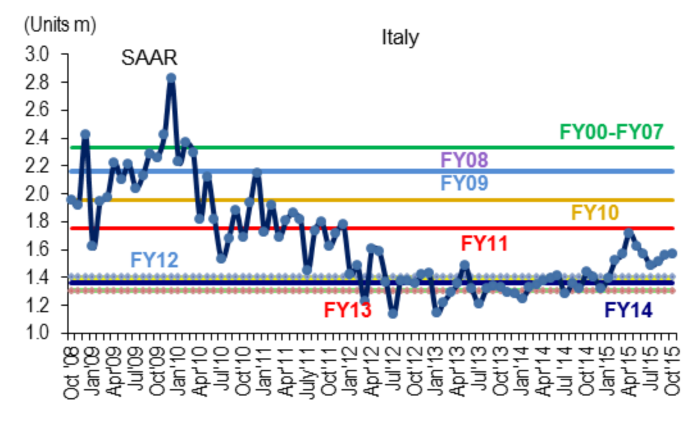
Italy's recovery from a three-year, triple-dip recession has continued and broadened as the economy has now grown for three consecutive quarters. However, GDP growth decelerated to 0.2% qoq in 3Q15, from upgraded growth rates of 0.3% and 0.4% in 2Q15 and 1Q15 respectively, making them the strongest quarters in four years that included 13 quarters of contraction or stagnation at best. The driving force has been domestic demand that benefited greatly from lower energy prices and deflation. After having shrunk by almost 5% in 2012-14, real GDP is set to recover, albeit slowly in 2015E-16E, by some 0.6% and 1.0% respectively. Although we expect that the government's efforts in restructuring will have eventually some positive effect, there remain considerable challenges such as a vicious circle of austerity and, despite recent improvements, high unemployment that only recently fell below 12%.

+15.3% in FY15E

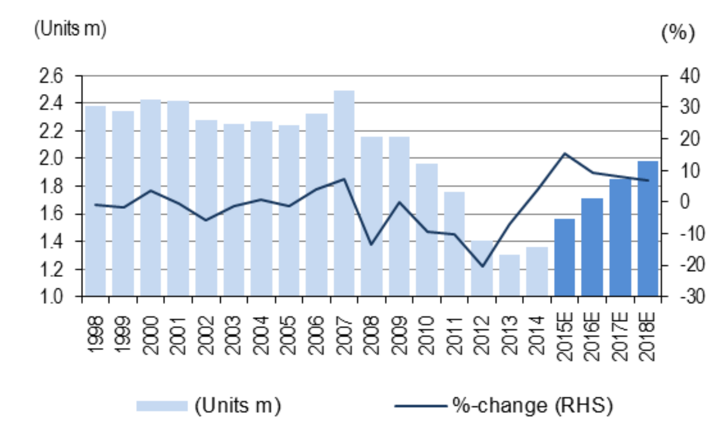
+9.5% in 2016E

The FY14 increase in the Italian car market by 4.2% to 1.36m was the first one after six consecutive years of decline, leaving the market 37% below pre-crisis LT trend. In view of the strong performance YTD, a large car parc and considerable pent-up demand, the Italian car market is set for a strong recovery, We expect that the market will grow 15.3% to 1.57m units in FY15E and 9.5% tom1.72m in 2016E.

Italy – monthly SAAR[1] vs. trend (Oct'08-Oct'15)



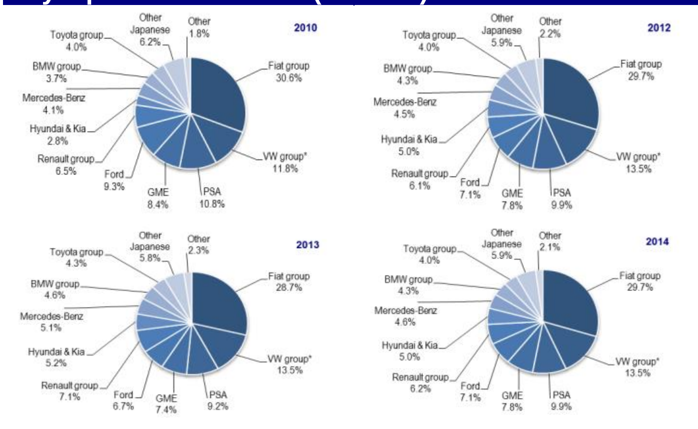
Italy – pc registrations (1998-2018E)



(1) SAAR according to calculations by LMC Automotive. Source: ANFIA, UNRAE, LMC Automotive and CGI calculations

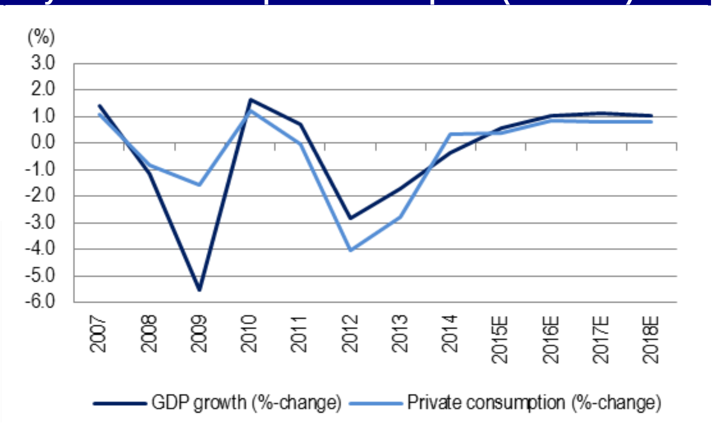
Source: ANFIA, UNRAE, LMC Automotive and CGI estimates

Italy – pc market shares (2010-14)



(*)VW group incl. Porsche. Source: Anfia and CGI calculations

Italy – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

Spain

+22.5% in October

+20.5% in YTD

In October, Spanish car registrations grew 5.2% yoy to 80.1k units, after 22.5% in September, resulting in a 20.5% increase to 0.86m YTD; this follows an 18.4% increase to 0.86m in FY14. In October, the SAAR weakened again to 1.03m, down 6.4% mom/from September's 1.10m that had been the strongest month since June 2010 (1.13m). At just above 1.02m, YTD's SAAR was 19% better than FY14's 0.72m, though remained 31% below the 2000-07 level of 1.48m units.

Government incentive scheme

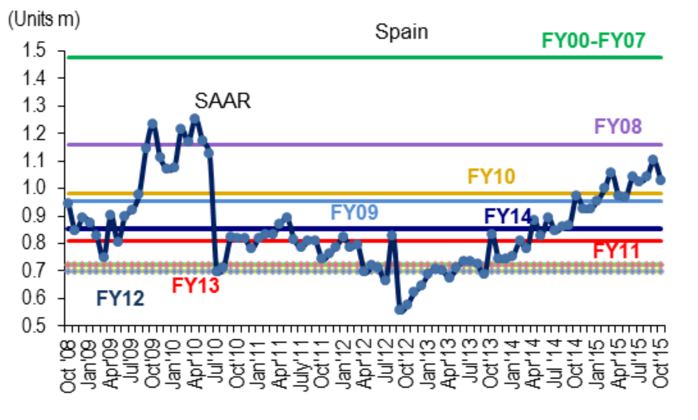
The relative strength of the Spanish car market since 4Q12 was initially primarily due to the PIVE scrappage scheme that was first announced and introduced in October 2012. It has been topped up and is now in its eighth incarnation. However, increasingly important drivers of the car market have been the recovery in the Spanish economy, greatly exceeding that of the Eurozone, improving consumer confidence and replacement demand.

+21.4% in FY15E

+9.7% in 20016E

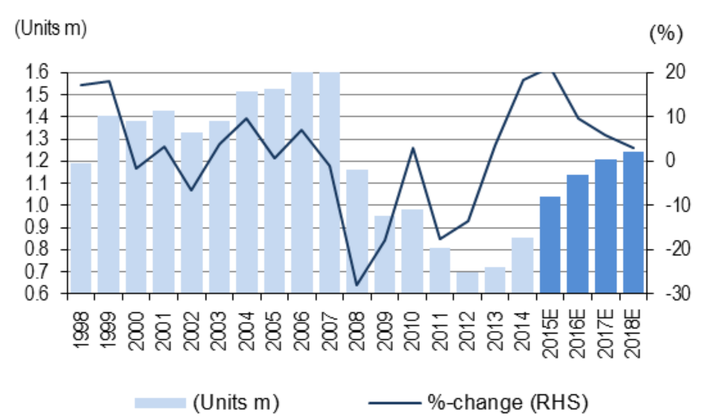
Spain, one of the fasted growing economies in the Eurozone, saw GDP to continue to grow strongly, 0.8% qoq in 3Q15, after 1.0% in 2Q15, the highest growth rate in a decade. In FY15E, GDP is expected to grow 3.2%, after 1.4% in FY14. The recovery has steadily broadened into services and the domestic sector, the latter benefiting from the 2012 labour market reforms; consumer confidence has recovered greatly since mid-2012, now beating pre-crisis levels. However, unemployment that has eased only recently to close to 21% overall and to 47% for youth should remain a drag for years to come. We understand that the Spanish government plans to keep extending the PIVE scheme in some form until underlying demand has stabilised. On this basis, the Spanish car market is set to grow 21.4% to 1.04m in FY15E, exceeding the 1.0m mark for the first time since 2008.

Spain – monthly SAAR[1] vs. trend (Oct'08-Oct'15)



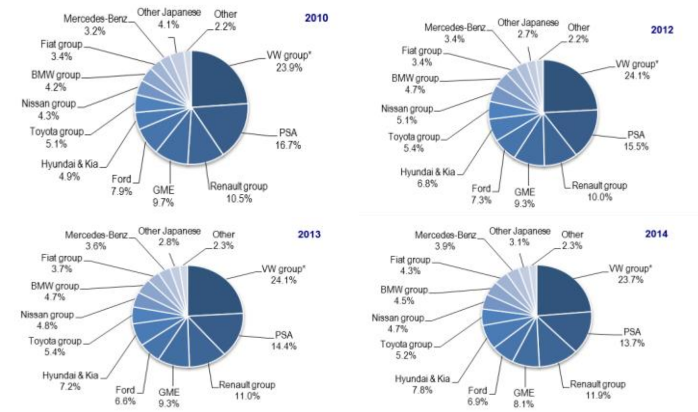
(1) SAAR according to calculations by LMC Automotive. Source: ANFAC, LMC Automotive and CGI calculations

Spain – pc registrations (1998-2018E)



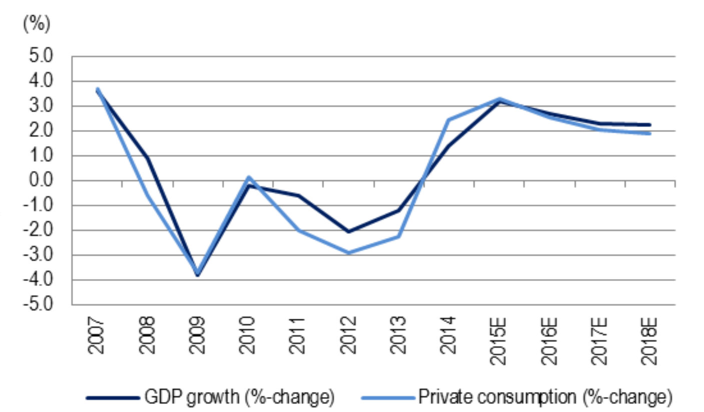
Source: ANFAC, LMC Automotive and CGI estimates

Spain – pc market by OEM (2010-14)



(*) VW group incl. Porsche. Source: ANFAC and CGI calculations

Spain – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

UK

-1.1% in October

+6.4% in YTD

In October, UK car registrations declined 1.1% yoy to 177.7k units, representing the first yoy decline after 43 months of growth; this followed a 8.6% yoy increase in September and resulted in a 6.4% increase to 2.27m YTD. In FY14, the UK market expanded 9.3% to 2.48m, making it the best annual result since 2004, exceeding the pre-crisis LT trend level of 2.45m.

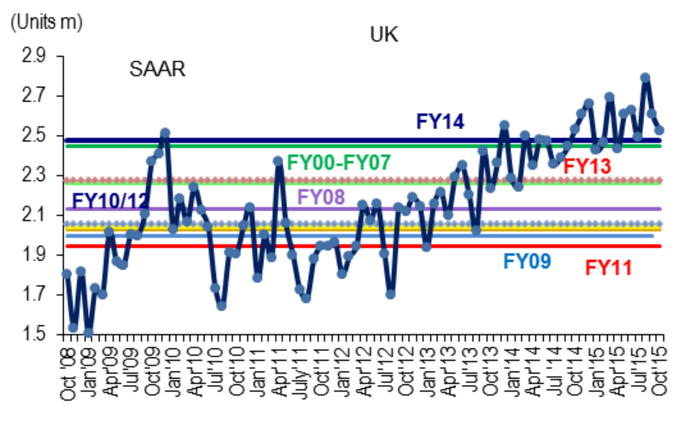
The UK market is thus approaching the end of longest period of growth on record that has/d been driven by pent-up demand, easy credit, aggressive marketing and a continuing economic recovery, with GDP growing 3.0% in 2014. Falling petrol prices, zero inflation and accelerating earnings growth have turbo-charged consumer confidence to above pre-crisis levels. The slowdown in the UK market had been heralded throughout 2015 by the fact that fleet/business sales have taken over from retail as market driver: YTD, private demand increased only 2.0%, reducing its share to 46.5%, after a 10.0% increase in FY14.

+5.3% in FY15E

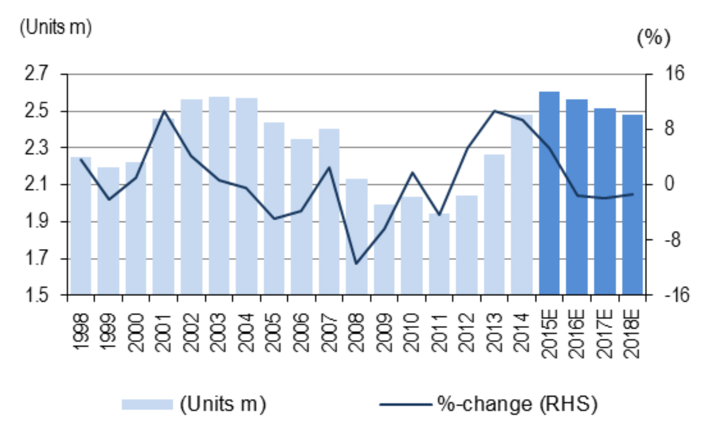
-1.6% in 2016E

In October, underlying demand continued to weaken, to a SAAR of 2.53m, down 3.0% mom/from September's 2.60m, a six-year high. YTD's SAAR of 2.57m was 3.6% up on FY14's 2.48m and 5.0% above the long-term pre-crisis average of 2.45m units. We expect that the UK car market will grow another 5.3% to 2.61m in FY15E and weaken thereafter, while the economy is expected to decelerate moderately. Challenges include growing political uncertainty in view of the UK's relationship with Europe.

UK – monthly SAAR[1] vs. trend (Oct'08-Oct'15)



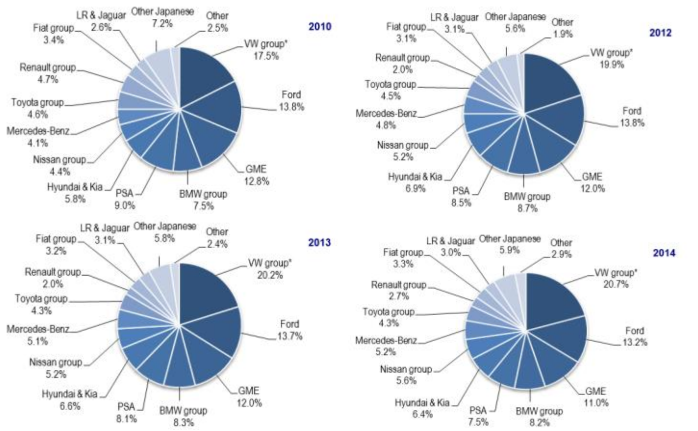
UK – pc registrations (1998-2018E)



(1) SAAR according to calculations by LMC Automotive. Source: SMMT, LMC Automotive and CGI calculations

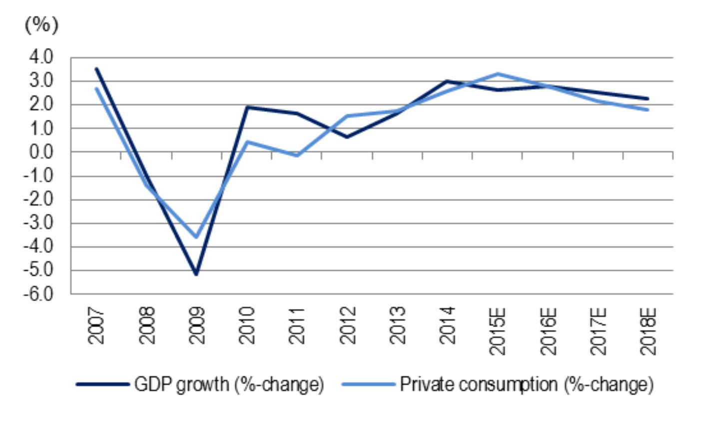
Source: SMMT, LMC Automotive and CGI estimates

UK – pc market by OEM (2010-14)



(*) VW group incl. Porsche. Source: SMMT and CGI calculations

UK – real GDP and priv. consumption (2007-18E)



Source: IMF, Oxford Economics and CGI estimates

Japan pc market

-4.0% in October

-10.1% in YTD

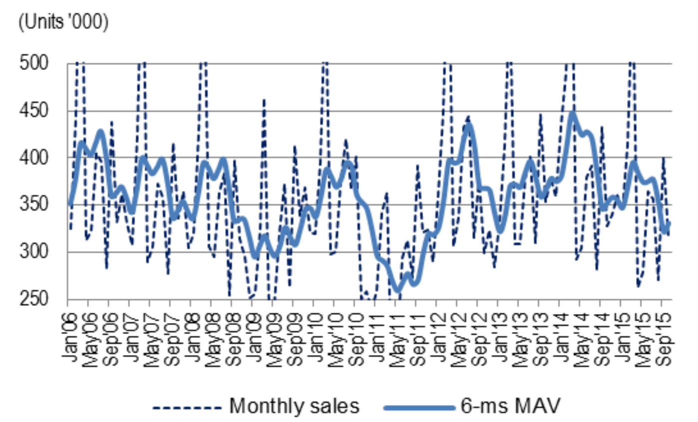
In October, vehicle sales declined -4.0% yoy to 0.32m pcs and -4.0% to 0.37m LVs, resulting in YTD declines of 10.1% and 9.2% respectively. At 4.90m, the YTD LV SAAR was down 10% from FY14's strong 5.44m that had been boosted by the 1Q14 sales boom ahead of the increase in consumption tax from 5% to 8% on April 1st 2014. However, after a strong 1Q15 with a SAAR of more than 5m, thanks to some pre-buying in anticipation of increases for the annual mini car tax and tighter rules to qualify for the 'eco-car' tax, the SAAR deteriorated considerably, to a low of 4.89m in August and has recovered since to a solid 5.0m in October. For FY15E, we expect declines of 10.5% to 4.20m pcs and 9.8% to 4.91m LVs.

-10.5% in FY15E

+2.0% in 2016E

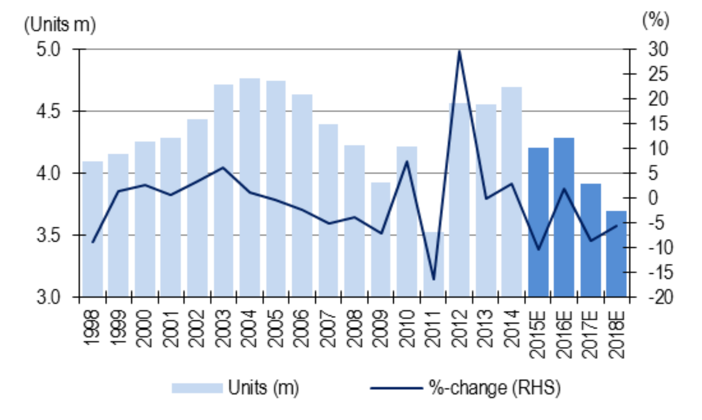
Macro-economic indicators remained mixed as GDP contracted an annualised -0.8% in 3Q15 and a revised -0.7% in 2Q15, after having grown +4.5% in 1Q15. The YTD performance should be seen in the context of trend growth being 0.5% or less according to BoJ. The worse than expected 3Q15 GDP result was due to a fall in inventories (accounting for a reduction by -2.1%-pts) and business investment (-0.7%-pts); positive was a better than expected 1.2%-pts contribution from private consumption. However, domestic demand has remained anaemic despite the BoJ's massive stimulus, raising the prospect of additional monetary easing further out. In FY15E, GDP growth is expected to fall short of 1.0%, after a small contraction in FY14. The dramatic slowdown in the Chinese economy poses an additional headwind to PM Abe's attempt to reflate the Japanese economy; this is due both directly through lower direct exports and indirectly through the repercussion on other Asian economies. We see this reflected in a 0.8% yoy decline in industrial production in September.

Japan – monthly pc registrations (Jan'06-Oct'15)



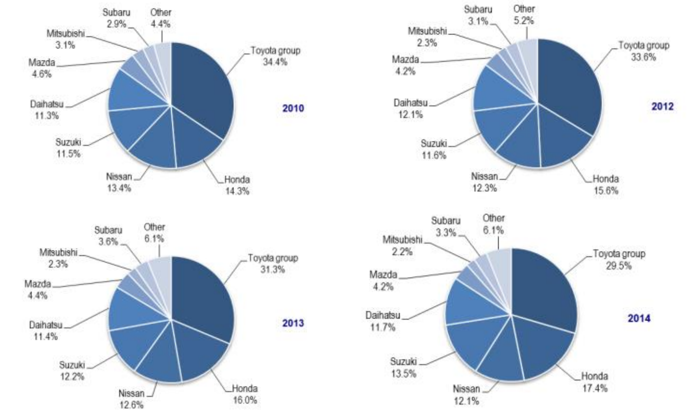
Source: JAMA and CGI calculations

Japan – pc market (1998-2018E)



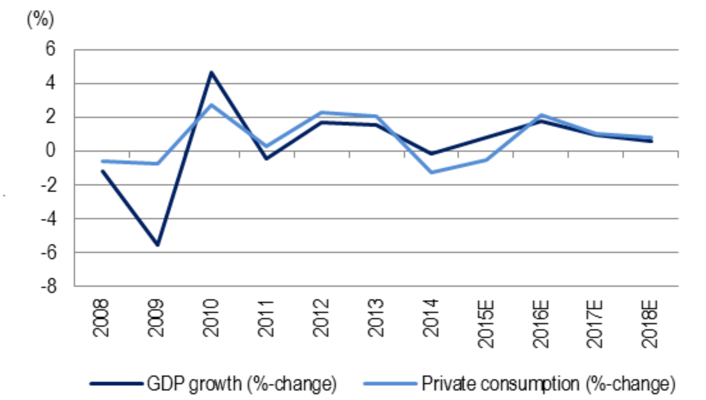
Source: JAMA, LMC Automotive and CGI estimates

Japan – pc market shares (2010-14)



Source: JAMA and CGI calculations

Japan – real GDP and private consumption (2008-18E)



Source: Oxford Economics and CGI estimates

China LV market

+12.9% in October

+2.5% in YTD

In October, the recovery in China LV wholesales accelerated to 12.9% and 2.26m, after a +2.9% increase in September and four months of yoy decline; this resulted in a 2.5% increase to 19.60m YTD. The LV SAAR jumped by more than 10% to 26.82m in September, from less than 23m in 3Q15, resulting in a YTD SAAR of 24.0m, up 1.1% on FY14's 23.6m.

Correction in PV sales, driven by economy….

…and exacerbated by inventory adjustment and pay-back in Tier 1-2 cities

The introduction of a temporary, 50% cut in purchase tax for small cars (with engines of up to 1.6l) to 5% is the main driver of the sharp improvement in the dominant private vehicle (PV) segment to a SAAR of 20m in October, from lows of 19m on July/August. The correction during the first eight months of 2015 was partly due to a falling consumer confidence, in view of a deteriorating economy and the stock market crash, but exacerbated by a necessary reduction in dealer inventories and pay-back in Tier 1&2 cities. (where the fear of introduction of purchasing restrictions had let to buying frenzy in late 2013 and early 2014.

+2.1% in FY15E

+8.1% in 2016E

With the inventory reduction out of the way and the tax cut in place until YE16, PV are expected to continue to recover for the next 14 months. On this basis, after having expanded by a CAGR of 13% in 2010-14, PV sales are expected to grow by just 4.2% (to 20.5m units) in FY15E and accelerate to 9.2% (22.4m) in 2016E. (Note: LCVs should continue their decline of four years by another 8.3% in FY15E, due to uncertainties over the impending China IV emission regulations and the slowdown in construction.) As a result, growth in the overall LV market is expected to decelerate from 8.0% in FY14 to 2.1% (24.1m) in FY15E and accelerate again to 8.1% in 2016E.

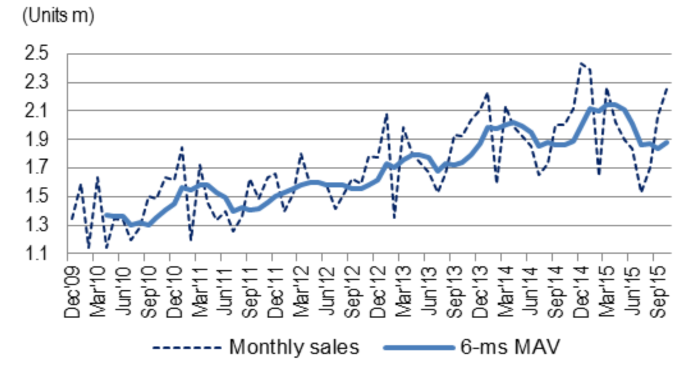
'New normal'

GDP growth continued to decelerate to 6.9% in 3Q15, after 7.0% in 1H15, down from 7.3% in FY14. The government's FY15 target of 'around 7%' reflects the change of focus away from rapid growth towards employment and the environment. In the medium term, GDP growth should continue to decelerate considerably as domestic activity is curbed by a correction in the real estate market, high levels of debt and excess capacity in various industrial sectors. Although 'Likonomics' aims at weaning the economy off government-led FA investments and rebalancing it towards private consumption and services, we expect that the central and regional governments will continue to use mini-stimuli to keep the economy on an even keel.

Long-term trends weaker

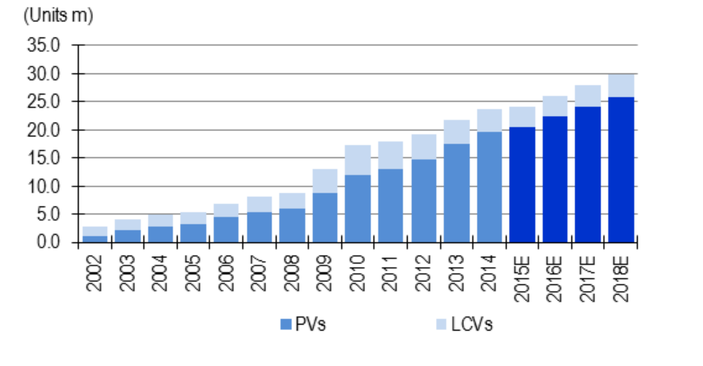
The Chinese LV market is expected to grow at a CAGR of 6.1% in 2014-2018E, the result of a flat LCV segment and a PV segment growing at a CAGR of 7.1%. During this period, the economy is also expected to develop private consumption as a growth engine. The expected long-term growth in the LV market should be supported by vehicle density growing in tandem with GDP/capita, rising urbanisation (from 52% in 2012) and a growing middle class. A growing customer base should be spreading demand inland from Tier 1 regions and the coastal areas. (See charts on p.16.)

China – monthly LV sales (Dec'09-Oct'15)



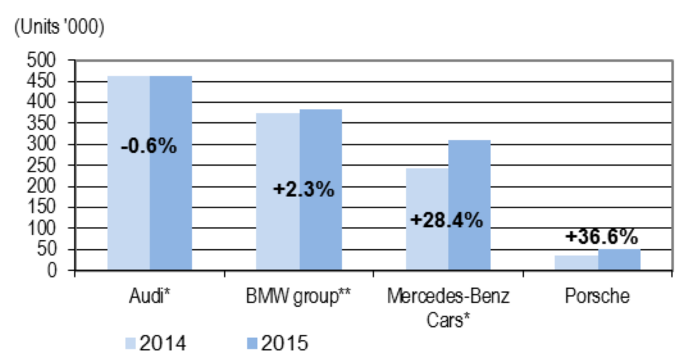
(1) incl. imports Source: LMC Automotive and CGI calculations

China – LV sales (2002-18E)



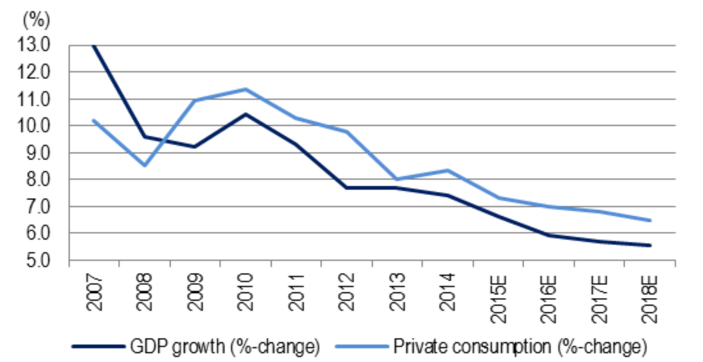
Source: LMC Automotive and CGI estimates

German premium brands[x] (Jan-Oct 2014 & 2015)



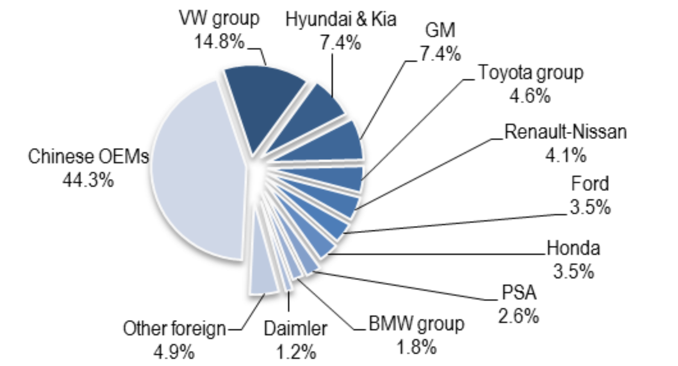
(x) Deliveries. (*) Incl. Hong Kong. (**) BMW and Mini only. Source: Company data and CGI calculations

China – real GDP and private consumption (2007-18E)



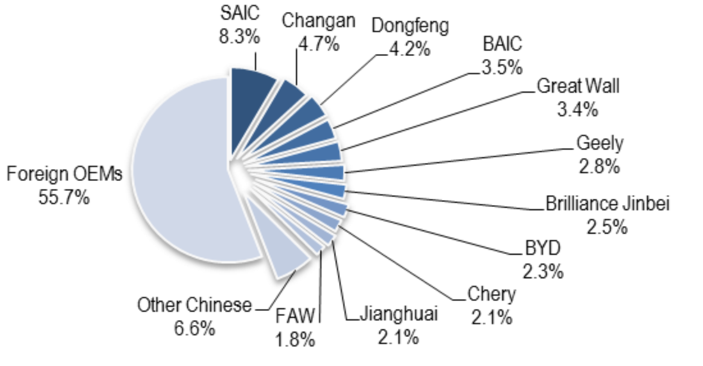
Source: Oxford Economics and CGI estimates

China – LV market by foreign OEM (2013)



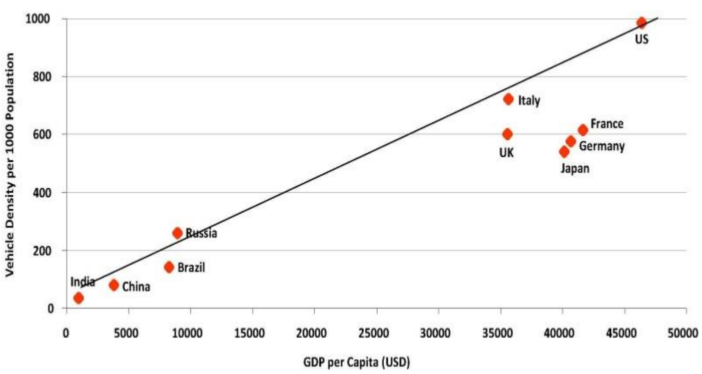
Source: LMC Automotive and CGI calculations

China – LV market by domestic OEM (2013)



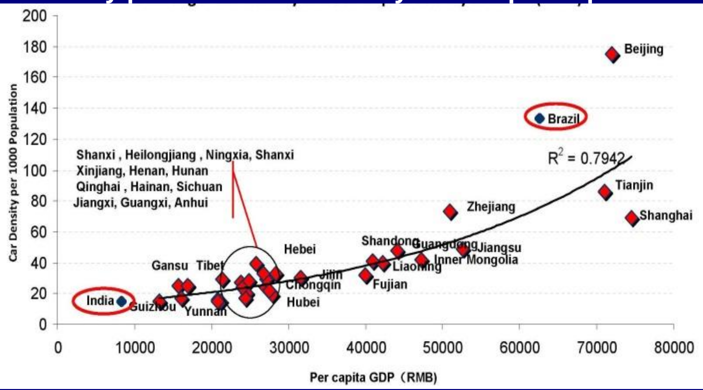
Source: LMC Automotive and CGI calculations

China – vehicle density & GDP per capita (2010)



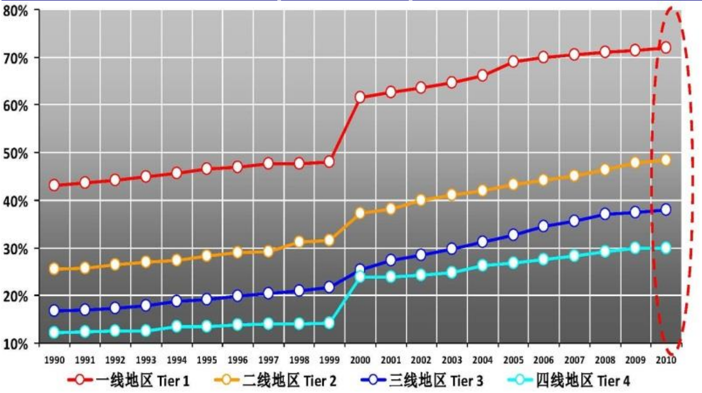
Source: LMC Automotive

China by province – car density & GDP per capita



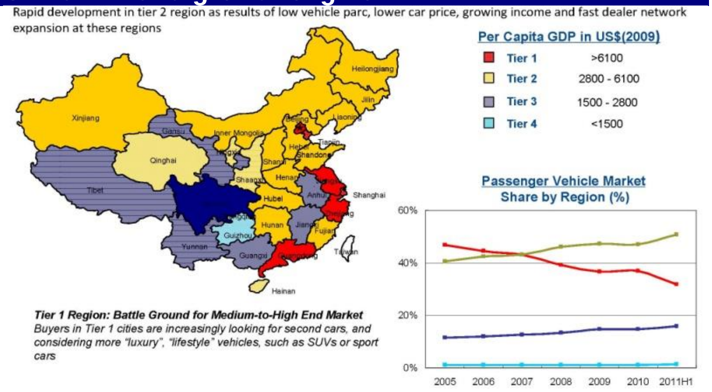
Source: LMC Automotive

China – urbanisation (1990-2010)



Source: LMC Automotive

China – inland growth engine



Source: LMC Automotive

Brazil LV market

-36.4% in October

-23.3% in YTD

In October, Brazilian LV sales declined 36.4% yoy to 185.5k units, after -31.8% in September, resulting in a 23.3% decline to 2.07m YTD. The downward trend in LV sales that started in mid-2012 has accelerated sharply during 2015, as austerity and recession are biting, further squeezing the purchasing power of the Brazilian consumer; this is exacerbated by ever tighter credit conditions. Indeed, after a spike in November/December 2014, when pre-buying ahead of the expiry of the second tranche of IPI tax cuts had boosted the SAAR to 3.3m and 3.7m, underlying demand has collapsed from 3.1m in January to 2.2m in October, the lowest level since the financial crisis. YTD's SAAR of 2.5m was down 25% from FY14's 3.33m.

Brazil descending into deepest recession in at least 25 years

Consumer sector in meltdown

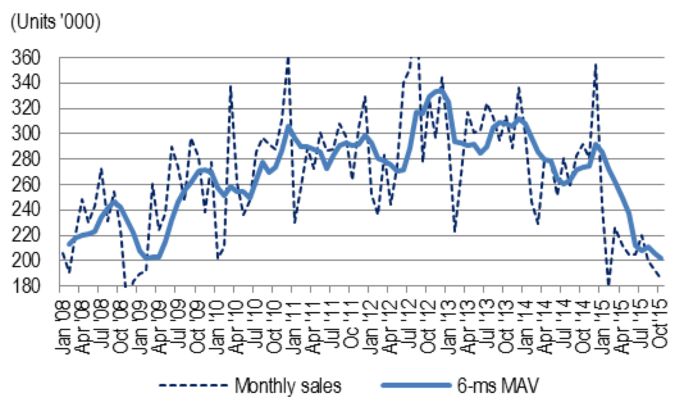
Brazil is further descending into a broad-based fiscal crisis and the deepest recession in at least 25-years as the fall-out from declining exports, rising inflation and interest rates is exacerbated by the economy's structural problems and the government's monumental corruption scandal. Consumer confidence has collapsed to levels not seen since 2001. Private consumption that, fuelled by subsidised credit, had been driving the economy in 2007-13, had slowed dramatically to 0.8% in FY14, and is expected to contract 2.8% in FY15E and 1.5% in 2016E. Austerity measures, including price increases for consumer basics and tax increases aimed at balancing overall budget have greatly increased the burden for the consumer; inflation jumped, testing 10% in July-October; the currency has collapsed by another 50% vs. USD in YTD; interest rates have risen by 200bpts YTD and 425bpts since January 2014; and employment keeps falling.

-29% in FY15E

-5% in 2016E

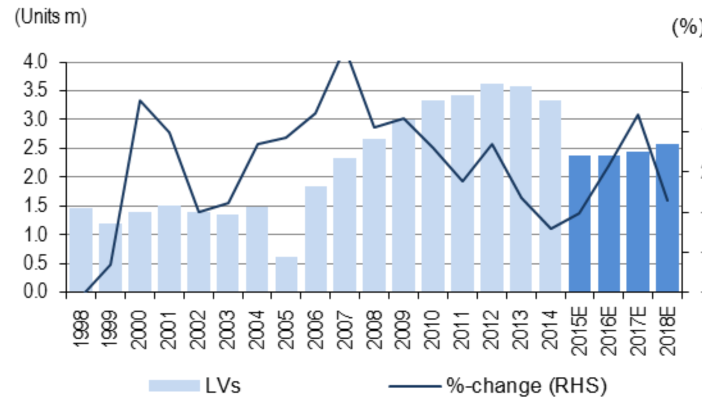
The Brazilian LV market is therefore heading for a sharp correction by 29% to 2.37m units in FY15E and another 5% in 2016E. This follows two years of decline, by -6.9% in FY14 and -1.6% in FY13. We believe that there remains a considerable downside risk to the forecast.

Brazil – monthly LV registrations (Jan'08-Oct'15)



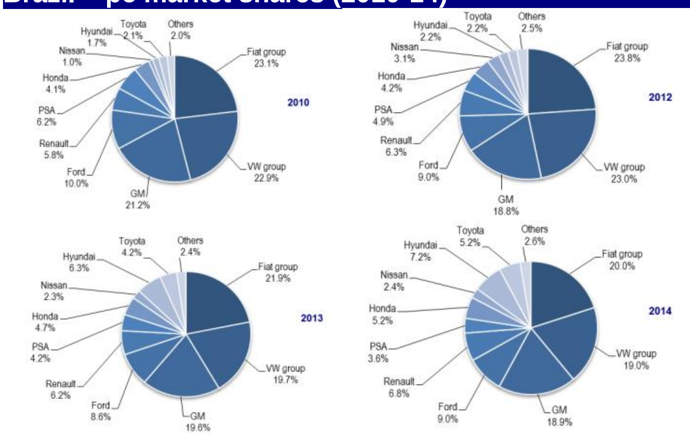
Source: ANFAVEA and CGI calculations

Brazil – LV market (1998-2018E)



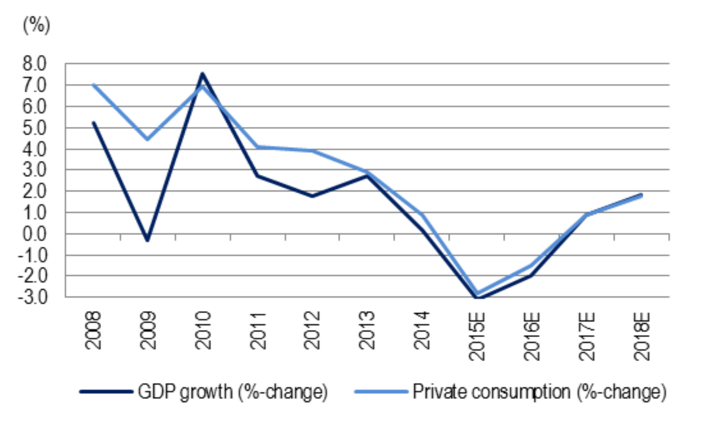
Source: ANFAVEA, LMC Automotive and CGI estimates

Brazil – pc market shares (2010-14)



Source: ANFAVEA and CGI calculations

Brazil – real GDP and private consumption (2008-18E)



Source: Oxford Economics and CGI estimates

Russia LV market

-38.5% in October

-33.6% in YTD

In October, Russian LV sales declined 38.5% to 130.0k units, after -28.6% in September, resulting in a 33.6% decline to 1.32m in YTD. This follows a 10% decline to 2.49m units in FY14. The SAAR has hovered around the 1.5m mark, about 50% below the 2012 record of 2.94m and estimated to be the bottom of the current recession. The steeper/deeper yoy decline rate in October reflects the relative strength of the market in 4Q14, following the introduction of a scrappage incentive scheme on September 1st.

Russia in major recesssion…

…as oil price outlook deteriorates

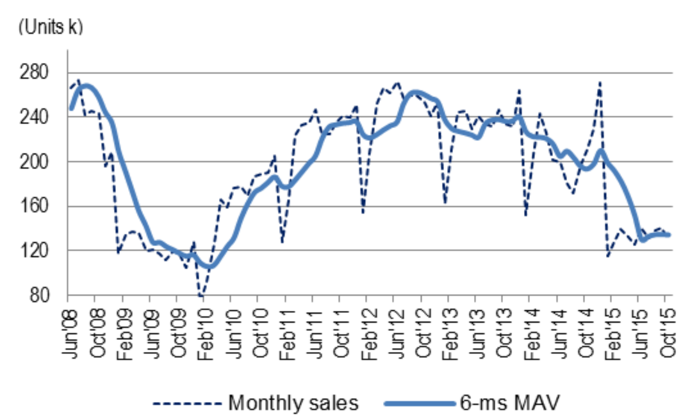
Over the past four months, Russia's economic malaise has worsened dramatically, after a brief glimmer of hope in 2Q15. Since August 1st, the renewed and persistent weakening of the oil price to well below USD 50/bbl (after having recovered to USD 70/bbl in 2Q15) has kept the rouble firmly in the USD 60-70 range. As a consequence the Bank of Russia discontinued monetary easing: the benchmark interest rate has remained at 11.0% since 31st July, after having been cut by 6.0%-pts in the first seven months, only partially reversing last year's rate hike (of 11.5%-pts). A deteriorating outlook for the oil price that is expected to remain consistently below USD 60 for the next two years should severely hamper the economic recovery until the end of the decade, representing a downgrade from the previous outlook. The recession is expected to continue well into FY16E and GDP to contract by 0.8% after -4.0% in FY15E and be followed by an extremely subdued recovery from 2017 onwards. The consumer is being hit particularly badly as real wages are declining by an annual rate of 10%, resulting in private consumption contracting -10% and -0.9% in 2015E-16E.

-36% in FY15E

-2.3% in 2016E

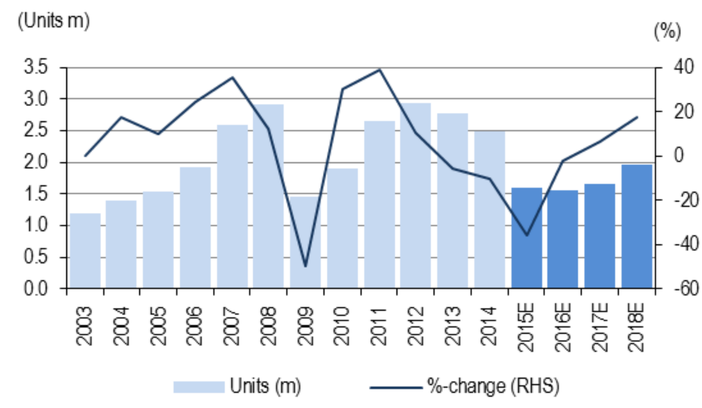
In the Russian LV market is set for declines of 36% to 1.60m units in FY15E and -2.3% to 1.56m in 2016E. This takes into account multiple incentive schemes brought in by the government, including scrappage initiatives, discounted leasing support, and preferential loan interest subsidies.

Russia – monthly LV sales[1] (Jun'08-Oct'15)



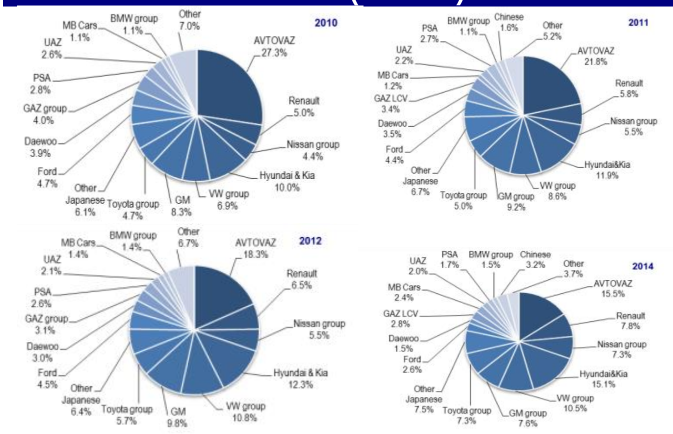
(1) LV sales = passenger cars and LCV. Source: AEB and CGI calculations

Russia – LV sales (2003-18E)



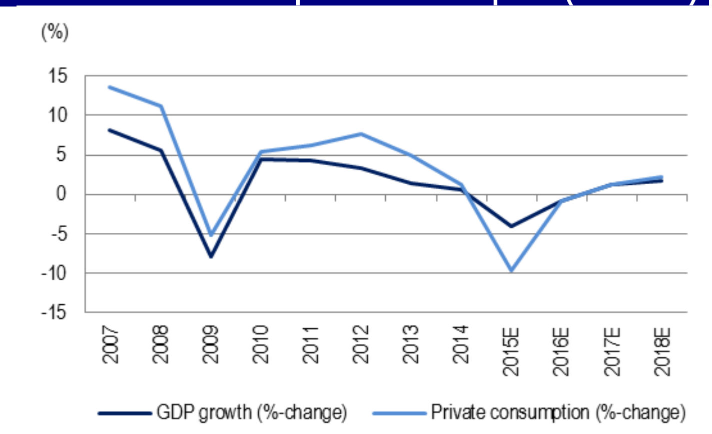
Source: AEB, LMC Automotive and CGI estimates

Russia – LV market shares (2010-14)



Source: AEB and CGI calculations

Russia – real GDP and private consumption (2007-18E)

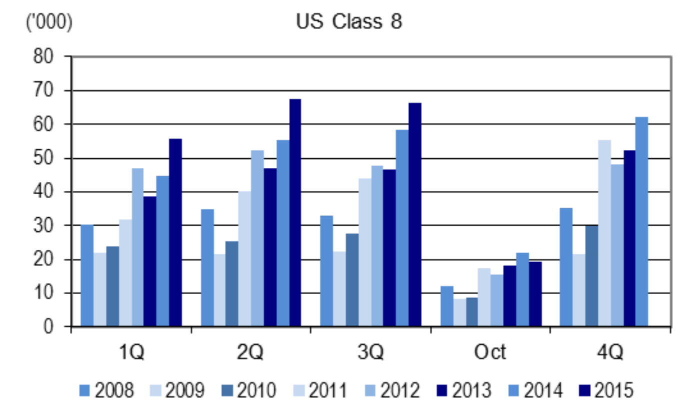


Source: Oxford Economics and CGI estimates

Demand trends for trucks

US medium & heavy truck market

US – Class 8 sales

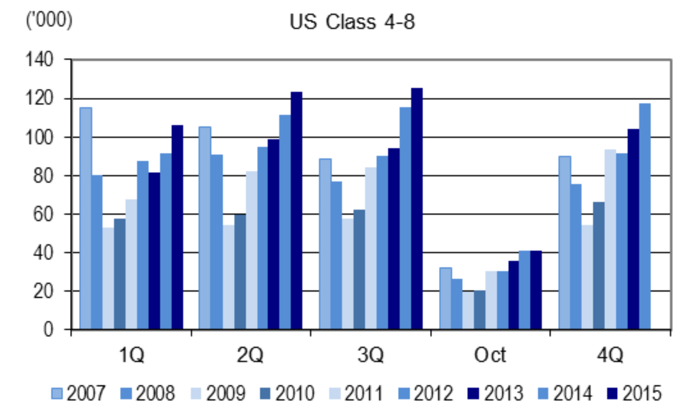


Source: Automotive News Data Center, CGI calculations

	1Q	2Q	3Q	Oct	4Q	FY
Units						
2010	23,839	25,418	27,825	8,714	30,070	107,152
2011	31,978	40,110	43,907	17,424	55,430	171,425
2012	46,845	52,401	47,585	15,577	48,192	195,023
2013	38,828	47,064	46,788	17,997	52,242	184,922
2014	44,566	55,279	58,526	22,045	62,146	220,517
2015	**55,839**	**67,395**	**66,378**	**19,253**	**-**	**-**
% change						
2011 yoy	34.1	57.8	57.8	100.0	84.3	60.0
2012 yoy	46.5	30.6	8.4	-10.6	-13.1	13.8
2013 yoy	-17.1	-10.2	-1.7	15.5	8.4	-5.2
2014 yoy	14.8	17.5	25.1	22.5	19.0	19.2
2015 yoy	**25.3**	**21.9**	**13.4**	**-12.7**	**-**	**-**
2014 vs. 2007	-12.8	52.9	97.7	87.3	82.2	46.1
2015 vs. 2007	**9.2**	**86.4**	**124.4**	**63.6**	**-**	**-**

Source: Automotive News Data Center, CGI calculations

US – Class 4-8 sales

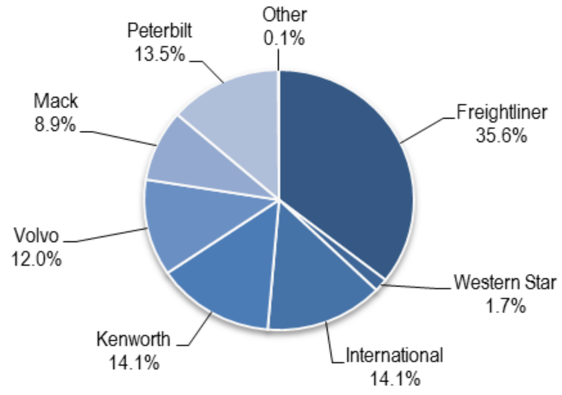


Source: Automotive News Data Center, CGI calculations

	1Q	2Q	3Q	Oct	4Q	FY
Units						
2010	57,781	59,533	62,231	20,510	66,399	245,944
2011	67,399	82,416	84,409	30,577	93,768	327,992
2012	87,763	94,962	89,898	30,445	91,752	364,375
2013	81,254	98,680	94,150	35,913	104,073	378,157
2014	91,432	111,169	115,103	41,095	117,095	434,799
2015	**106,075**	**123,685**	**125,193**	**40,886**	**-**	**-**
% change						
2011 yoy	16.6	38.4	35.6	49.1	41.2	33.4
2012 yoy	30.2	15.2	6.5	-0.4	-2.1	11.1
2013 yoy	-7.4	3.9	4.7	18.0	13.4	3.8
2014 yoy	12.5	12.7	22.3-	14.4	12.5	15.0
2015 yoy	**16.0**	**11.3**	**8.8**	**-0.5**	**-**	**--**
2014 vs. 2007	-20.5	5.5	30.1	27.2	30.1	9.0
2015 vs. 2007	**-7.8**	**17.4**	**41.5**	**26.5**		

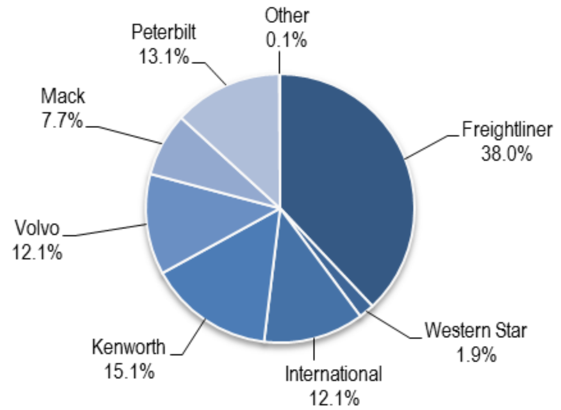
Source: Automotive News Data Center, CGI calculations

US – Class 8 sales by manufacturer (FY14)



Source: Automotive News Data Center, CGI calculations

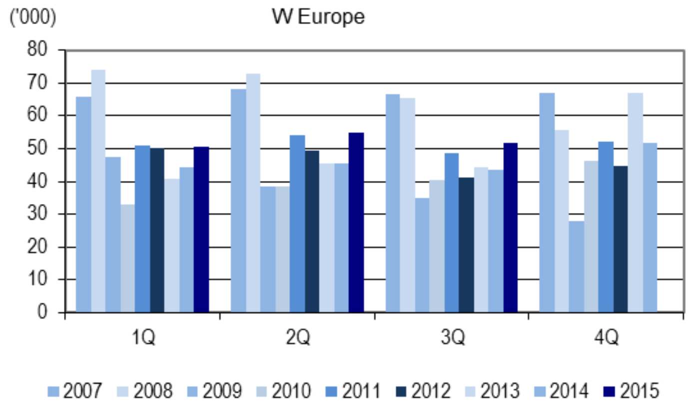
US – Class 8 sales by manufacturer (Jan-Oct'15)



Source: Automotive News Data Center, CGI calculations

Europe heavy truck markets

W Europe – truck registrations (>=16t)

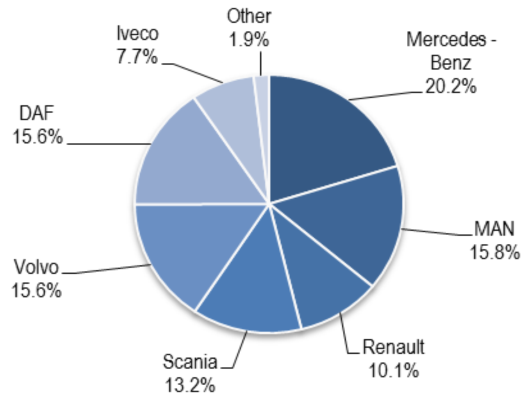


Source: ACEA, CGI calculations

	1Q	2Q	3Q	4Q	FY
Units					
2010	32,828	38,461	40,483	46,174	157,946
2011	50,998	53,938	48,692	52,099	205,727
2012	50,162	49,411	41,293	44,674	185,540
2013	40,649	45,321	44,436	66,956	197,508
2014	44,355	45,298	43,638	51,662	185,397
2015	**50,716**	**54,712**	**51,593**	**-**	**-**
% change					
2011 yoy	55.3	40.2	20.3	12.8	30.3
2012 yoy	-1.6	-8.4	-15.2	-14.3	-9.8
2013 yoy	-19.0	-8.3	7.6	49.7	6.5
2014 yoy	9.1	-0.1	-1.8	-22.7	-6.0
2015 yoy	**14.3**	**20.8**	**18.2**	**-**	**-**
2014 vs. 2008	-40.0	-37.8	-33.2	-7.1	-30.7
2015 vs. 2008	**-31.4**	**-24.9**	**-21.0**	**-**	**-**

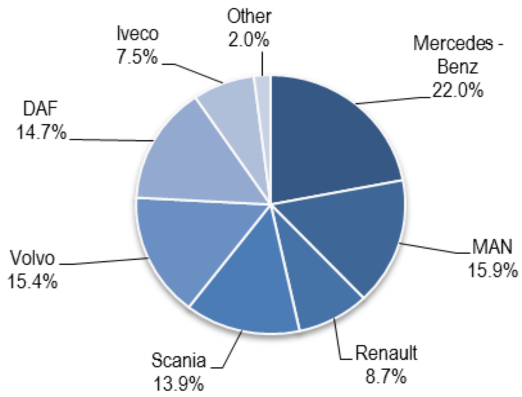
Source: ACEA, CGI calculations

W Europe – truck registrations by manufacturer (FY12)



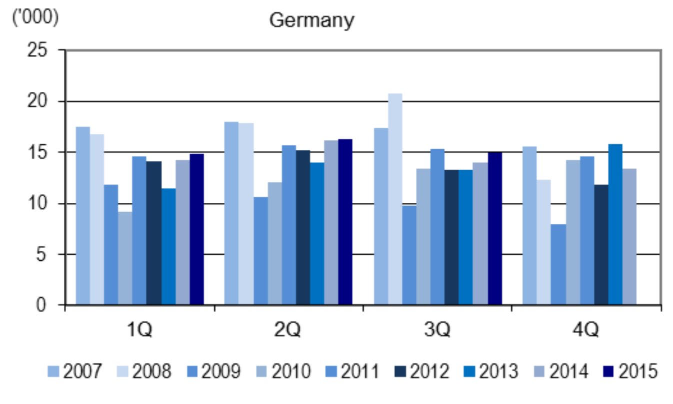
Source: Association Auxiliaire de l'Automobile, CGI calculations

W Europe – truck registrations by manufacturer (FY13)



Source: Association Auxiliaire de l'Automobile, CGI calculations

Germany – truck registrations (>=16t)

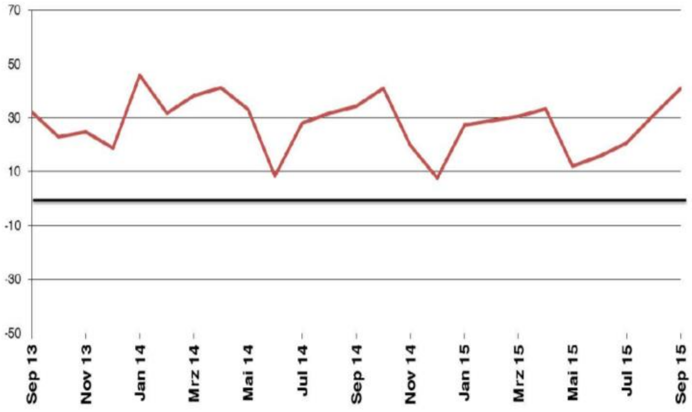


Source: ACEA, CGI calculations

	1Q	2Q	3Q	4Q	FY
Units					
2010	9,145	12,064	13,388	14,220	48,817
2011	14,577	15,718	15,358	14,560	60,213
2012	14,148	15,226	13,211	11,859	54,444
2013	11,432	14,038	13,310	15,796	54,576
2014	14,287	16,133	14,016	13,450	57,886
2015	**14,842**	**16,255**	**14,935**	**-**	**-**
% change					
2011 yoy	59.4	30.3	14.7	2.4	23.3
2012 yoy	-2.9	-3.1	-14.0	-18.6	-9.6
2013 yoy	-19.2	-7.8	0.7	33.2	0.2
2014 yoy	25.0	14.9	5.3	-14.9	6.1
2015 yoy	**3.9**	**0.8**	**6.6**	**-**	**-**
2014 vs. 2008	-14.9	-9.9	-32.3	8.9	-14.6
2015 vs. 2008	**-11.6**	**-9.2**	**-27.9**	**-**	**-**

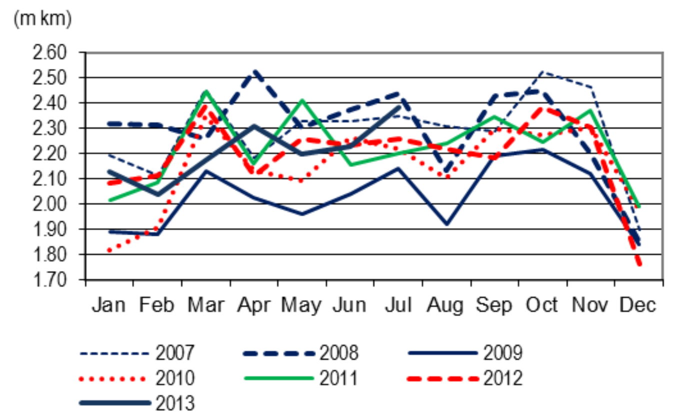
Source: ACEA, CGI calculations

SCI Logistics Barometer (Germany) (Sep'13-'15)



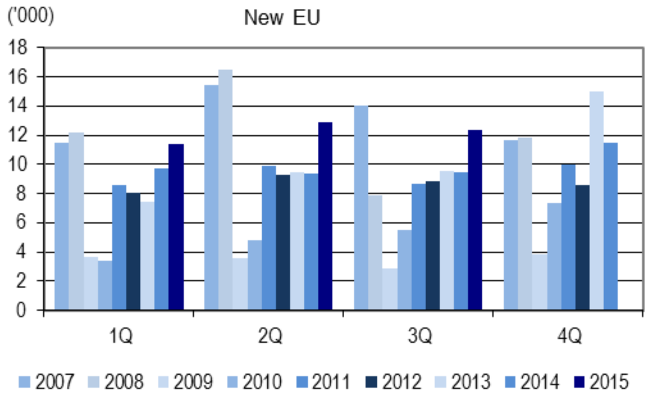
Business confidence indicator – transport and logistics industries in Germany. Source: www.sci.de

Toll Collect – Driven kms on German motorways



Source: Bundesamt für Güterverkehr

New EU[1] – truck registrations (>=16t)



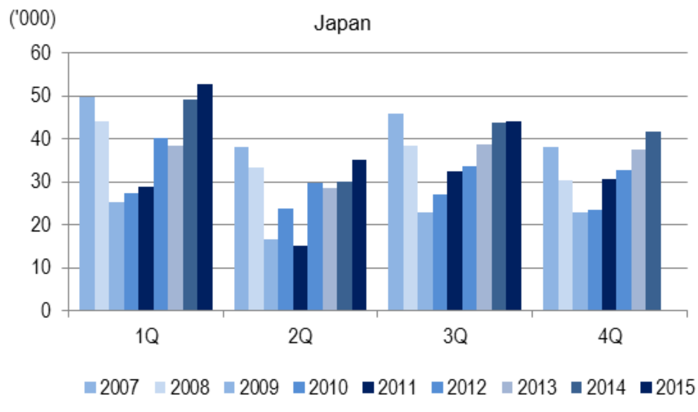
	1Q	2Q	3Q	4Q	FY
Units					
2010	3,384	4,779	5,509	7,351	21,023
2011	8,594	9,912	8,693	10,016	37,215
2012	8,020	9,333	8,811	8,585	34,749
2013	7,468	9,505	9,513	14,990	41,476
2014	9,737	9,365	9,430	11,500	40,013
2015	**11,430**	**12,912**	**12,374**		
% change					
2011 yoy	154.0	107.4	57.8	36.3	77.0
2012 yoy	-6.7	-5.8	1.4	-14.3	-6.6
2013 yoy	-6.9	1.8	8.0	74.6	19.4
2014 yoy	30.4	-1.5	-0.9	-23.3	-3.5
2015 yoy	**17.4**	**37.9**	**31.2**		
2014 vs. 2008	-20.3	-43.2	20.1	-2.6	-17.3
2015 vs. 2008	**-6.5**	**-21.6**	**57.6**		

(1) New EU, mostly Central Europe and Baltic countries. Source: ACEA, CGI calculations

Source: ACEA, CGI calculations

Japan medium & heavy truck market

Japan – medium & heavy truck market (>3.5t)



	1Q	2Q	3Q	4Q	FY
Units					
2010	27,512	23,701	27,029	23,455	101,697
2011	28,993	15,094	32,598	30,605	107,290
2012	40,273	29,714	33,645	32,727	136,359
2013	38,568	28,572	38,666	37,466	143,272
2014	49,245	30,085	43,732	41,753	164,815
2015	**52,737**	**35,252**	**44,149**	**-**	**-**
% change					
2011 yoy	5.4	-36.3	20.6	30.5	5.5
2012 yoy	38.9	96.9	3.2	6.9	27.1
2013 yoy	-4.2	-3.8	14.9	14.5	5.1
2014 yoy	27.7	5.3	13.1	11.4	15.0
2015 yoy	**7.1**	**17.2**	**1.0**	**-**	**-**
2014 vs. 2008	11.3	-9.8	13.3	37.0	12.4
2015 vs. 2008	**19.1**	**5.6**	**14.4**	-	**-**

Source: JAMA, CGI calculations

Source: JAMA, CGI calculations

`

Carlo R Besenius, CEO & Head of Global Strategy
cbesenius@cg-inv.com
office: +352 2625 8640
mobile: +352 691 106 969
Luxembourg/Europe

Steve Gluckstein, Global Strategist
sgluckstein@cg-inv.com
office: 212 939 7256
mobile: 732 768 8843
New York, NY, USA

Sabine CJ Blümel, Head of Global Automotive Research
sblumel@cg-inv.com
office: +44 7785 301 588
London, UK

Marc Peters, Head of Global Industrial Strategy
mpeters@cg-inv.com
office: +352 26 25 86 40
mobile: +352 621 36 44 50
Luxembourg/Europe

Feliks Lukas, Director of Industrial Consulting
flukas@cg-inv.com
office NY: 212-939-7256
mobile: +385 9848 8951
Kastela, Croatia

Allison M Cimon, Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

Gary Schieneman, Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917 868 6842
New York, NY, USA

Jennifer Crisman, COO
jcrisman@cg-inv.com
office: + 352 2625 8640
Luxembourg/Europe