

Automobile Market Outlook Uruguay

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Economic Analysis

Argentina
Chief Economist
Gloria Sorensen
gsorensen@bbva.com
+54 11 43464390

Jorge Lamela
jorge.lamela@bbva.com
+54 11 43464390

With the assistance of:

Juan Manuel Manias
Marcos Dal Bianco
Andrés Escardó
Martín Pastorino.

Moderate outlook for 2012

- **Record sales in 2011**

Vehicle sales reached a new record of 55,000 units in 2011 thanks to the increase in real revenues, the strengthening of the exchange rate, and tax changes that incentivized the purchase of vehicles with a smaller engine size.

- **Continuing insufficient improvement of the inhabitant/automobile ratio.**

The inhabitant/automobile ratio improved in 2011 but still did not return to pre-crisis 2002 levels.

- **Increasing sales of local production abroad.**

Local automobile manufacturers clearly expanded their activity, supplying around 5% of the local market and increasing exports within MERCOSUR.

- **We expect deteriorating growth in 2012.**

The expansion cycle in the activity will continue during 2012, but at a reduced rhythm due to the lower GDP growth and the absence of tax reforms.

- **Two factors limiting bank financing persist.**

Although credit access conditions improved, the high relative price of cars and the high level of employment in the informal sector limit the development of an automobile loan market.

- **Regional conflicts for non-compliance with the regional requirement for vehicles.**

Against a background of greater commercial barriers within MERCOSUR, conflicts with Brazil could persist with respect to non-compliance with the regional requirement for vehicles.

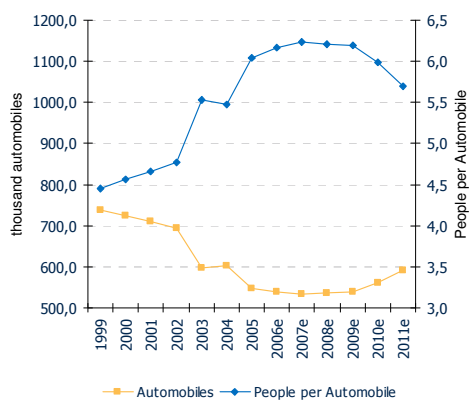
Record values in 2011 and deteriorating growth for 2012.

Continuing insufficient improvement of the inhabitant/automobile ratio

Data on the evolution of Uruguay's automotive fleet display a gradual improvement over recent years, according to our estimates. Given that official data are only available to 2006, we have calculated the evolution of the automotive fleet based on annual car sales and average de-registrations rates over recent periods.

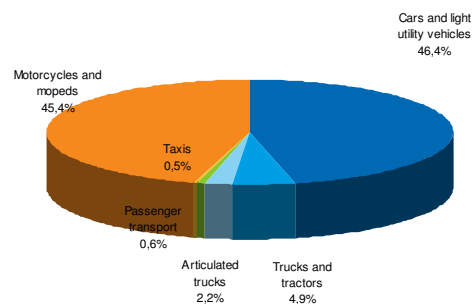
In spite of its recent growth, we estimate that the automotive fleet remains under 600,000 units, with the inhabitants/automobile ratio at 5.7. Clearly, this is still above the values seen prior to the 2002 crisis. At the regional level, the ratio is among the lowest: only Argentina has a lower value (3.8 in 2010), while Chile (5.7 in 2010) is at a similar level.

Chart 1
Automotive Fleet Growth



Source: BBVA Francés Research using DNT, INE, and ASCOMA data.

Chart 2
Vehicle fleet by category



Source: BBVA Francés Research using DNT data.

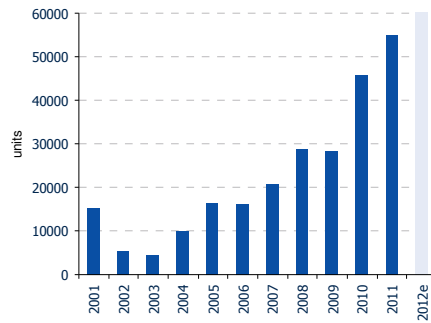
An analysis of the composition of the entire Uruguayan automotive fleet in 2006 including motorcycles and scooters/mopeds reveals that the latter category accounts for 45.4% of the vehicles, while automobiles and light utility vehicles hover around 46.1% as the most important category (see Chart 2). The importance of motorcycles and mopeds/scooters in the vehicle fleet is similar to other countries in the region, such as Colombia which in 2009 had motorcycles and scooters/mopeds accounting for 45% of its fleet.

Car sales growth slows down

In 2011 sales of new vehicles reached a new record with 55,004 units for a total of USD 1.2 million, with our estimate of the average price per unit at around USD 22,200.

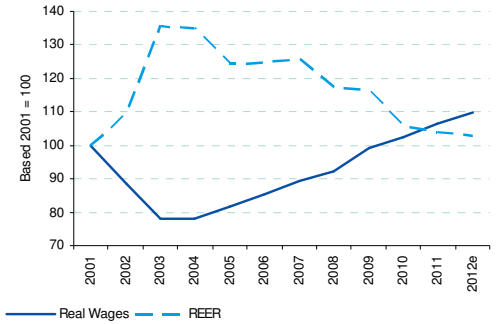
In keeping with data from the Asociación de Concesionarios y Marcas de Automotores (ASCOMA, Automotive Dealers and Manufacturers Association), sales were mainly of small utility vehicles (51,443 units), followed by heavy utility vehicles (3,561 units), both record levels in their respective categories.

Chart 3
Automobile Sales



Source: BBVA Francés Research using ASCOMA data.

Chart 4
Real Wages and Multilateral Exchange Rate



Source: BBVA Francés Research using BCU and INE data.

Sales grew 20.3% year-on-year in 2011, in response to a series of positive factors. The most significant were: a) the growth of real income (associated both to improvements in employment levels and to a growth in real wages); b) an exchange rate that increased over the period at hand, resulting in lower automobile prices in relative terms, given the large share of imported vehicles in the market (95%); and c) modifications early in the year to the IMESI tax, the internal tax that was 30% for all categories and was modified to values between 20 and 40%, according to the engine size of the vehicle.

These factors took place in a context of strong growth of the Uruguayan economy (estimated GDP growth in 2011 was 6.2% year-on-year) and stable interest rates during the year, with a slight downward trend toward the end of the period.

The outlook for 2012 indicates a deteriorating growth in sales as a consequence of the reduction in economic activity (estimated GDP growth for 2012: 4.4% year-on-year) which will imply lower increases in household incomes than those seen during 2011. However, this trend would be compensated partially by the continued strengthening of the peso, although at a slower rate than the previous year, which would imply another improvement in the relative prices of automobiles, and consequently greater accessibility to credit in terms of earnings. Therefore, our forecast for 2012 is of 60,000 automobiles sold, or a 9.5% increase year-on-year.

Chevrolet and Volkswagen lead sales in light and heavy vehicles, respectively

Light automobile sales continued to be dominated by Chevrolet and Volkswagen, accounting for 37.4% of the market between the two.

Table 1

Sales of cars and light utility vehicles to the public by make

Automakers	2011		2010	
	Units	Share	Units	Share
1 CHEVROLET	13033	25,3%	11657	28,7%
2 VOLKSWAGEN	6212	12,1%	5192	12,8%
3 CHERY	3394	6,6%	0	0,0%
4 FIAT	3390	6,6%	3755	9,2%
5 NISSAN	3048	5,9%	2135	5,3%
6 PEUGEOT	2818	5,5%	1891	4,7%
7 SUZUKI	2471	4,8%	941	2,3%
8 RENAULT	2104	4,1%	1632	4,0%
9 HYUNDAI	1630	3,1%	1366	3,4%
10 FORD	1572	3,2%	1694	4,2%
11 TOYOTA	1376	2,7%	1560	3,8%
12 BYD	1029	2,0%	577	1,4%
13 GWM	957	1,9%	858	2,1%
14 CITROEN	809	1,6%	1009	2,5%
15 EFFA	723	1,4%	671	1,7%
16 FAW	755	1,5%	388	1,0%

Source: BBVA Francés Research using ACAU data.

With regard to heavy utility vehicles (trucks and buses), the ranking by brand is still led by Volkswagen, with 22.1% followed by JMC (14.8%). It is important to note that both brands reduced their overall share, while Foton (12.4%) and Mercedes Benz (10.7%) increased theirs significantly.

Table 2

Sale of heavy utility vehicles by make to public

Automakers	2011		2010	
	Units	Share	Units	Share
1 VOLKSWAGEN	789	22,1%	707	23,2%
2 JMC	526	14,8%	479	15,7%
3 FOTON	442	12,4%	218	7,2%
4 MERCEDES BENZ	382	10,7%	197	6,5%
5 JAC	311	8,7%	350	11,5%
6 SCANIA	231	6,5%	219	7,2%
7 IVECO	180	5,1%	102	3,3%
8 HYUNDAI	147	4,1%	298	9,8%
9 AEOLUS	119	3,3%	122	4,0%
10 VOLVO	113	3,2%	119	3,9%

Source: BBVA Francés Research using ACAU data.

Small decrease of the trade deficit against a background of trade growth

External trade in cars and car parts grew significantly during 2011, particularly in the area of exports, which made it possible to slightly reduce the trade deficit in this sector.

Uruguay's automobile industry consists of three car makers that satisfy around 5% of internal demand, while the rest of the country's demand is met from abroad.

In 2011, sales abroad increased significantly (see Table 3), in particular in regional markets, in almost equal shares to Brazil and Argentina. Around September, problems arose in trade with Brazil when the latter denounced non-compliance to the regional integration percentages required for units sold by MERCOSUR.

This resulted at the end of the year in a slowing of sales and the conflict extended as it affected investment decisions announced by the Chinese company LIFAN, which made the continuation of negotiations conditional on a final resolution of the conflict.

Table 3
Foreign trade in transport equipment

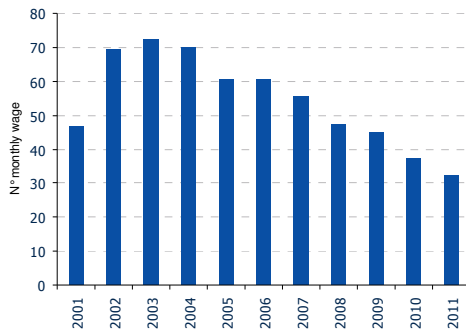
	USD million		Change %
	2010	2011 (*)	
Exports	191,0	304,0	59,2%
Imports	764,2	829,2	8,5%
Trade Balance	-573,3	-525,2	-8,4%

(*) November annualized figures.
Source: BBVA Francés Research using BCU data.

Slight upturn in banking credit, with plenty of room for growth

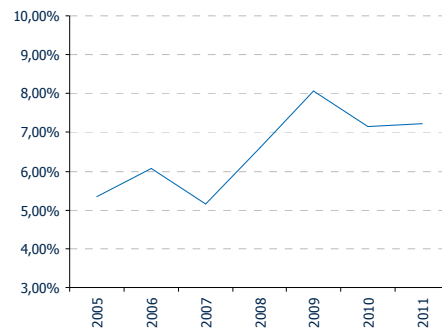
The increases seen in family incomes and the evolution of the prices of vehicles resulted in an improvement of the accessibility index, as shown in Table 5. In 2011, 32 average monthly salaries were needed to acquire a vehicle, a continuing of the improvement in this ratio observed in 2005.

Chart 5
Access to vehicles



Source: BBVA Francés Research based on INE, BCU, press stories, and in-house calculations.

Chart 6
Collateral loans/invoicing



Source: BBVA Francés Research based on BCU, ASCOMA, and in-house calculations.

The improvement in accessibility indicators is reflected in an increase of the share of collateral loans in the total of estimated invoicing during recent years. As shown in Table 6, in 2011 Collateral Loans reached 7.2% of sales for the period, which is still much lower than international and regional percentages.

Although over the last few years a growth of the share of financing has been seen in local currency, the average for 2011 was 87.2% of the awarded financing was in foreign currency.

The lack of collateral loans has been partially offset by other forms of financing, such as the use of consumer lending facilities for the purchase of vehicles, the growing importance of leasing as a means of financing light and heavy utility vehicles, and also finance via auto-dealers.

Sector limitations or risks: scale, MERCOSUR protectionism, tax component in prices and informal-sector income

There are limitations to the development of local production by car makers, among which the problem of the small Uruguayan demand compared to the two already developed industries of MERCOSUR (Brazil and Argentina) as well as practices tending to increase the "Mercosur" component of auto parts. The local manufacturing sector therefore inevitably fulfills the role of provider of parts or vehicles for relatively restricted niches.

On the demand side, high vehicle prices in relation to average incomes, in particular due to the tax component, uncertainty over the evolution of the exchange rate in a market in which the majority of vehicles are imported and limits to greater financing from the still-high percentage of the labor force in the informal sector (27.5% in the last quarter of 2011) restrict greater expansion of the demand for vehicles.

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