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Automobile Market Outlook

Uruguay

2013
Economic Analysis

- **Vehicle sales reached a new record in 2012 with growth of 3.4%** thanks to the increase in real family income, the strengthening of the exchange rate and real interest rates below the levels recorded last year.

- **Consumer financing of sales of new vehicles grew to 8.5% of estimated sales due to** better accessibility conditions and lower interest rates.

- **Sharp fall in local automobile sector production, vehicle parts in particular,** due to lower external demand in spite of overall growth in the manufacturing sector.

- **The sector trade deficit amounts to almost USD 1 billion:** Fewer exports due to weak growth and the greater customs restrictions in the main Mercosur partners.

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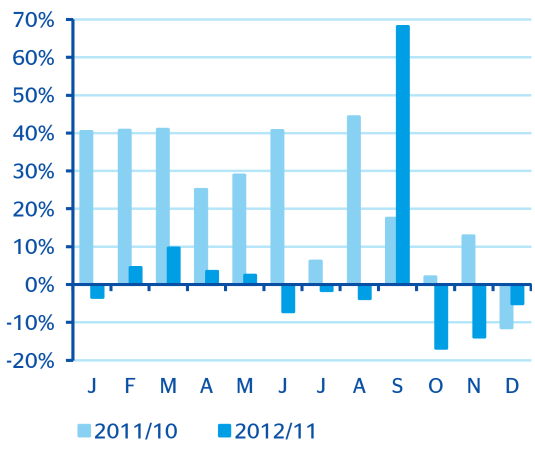
Closing date: March 21, 2013

1. Slower growth in vehicle sales

In 2012, sales of new vehicles reached a new record with 56,837 units with estimated total sales of USD 1.4 billion (+ 6% y/y), but with a real growth rate of only 3.4% y/y, a sharp slowdown against the performance in 2011.

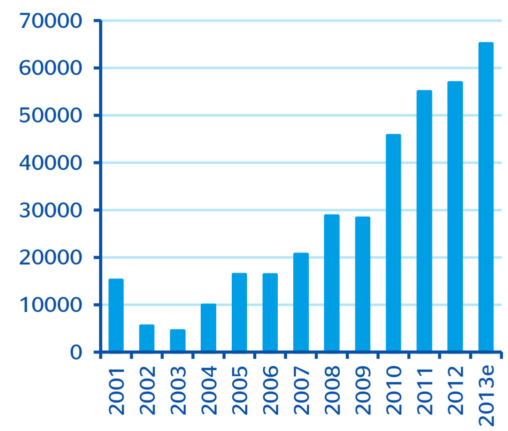
According to data from the Asociación de Concesionarios y Marcas de Automotores (ASCOMA, Automotive Dealers and Manufacturers Association), sales were mainly of automobiles and small utility vehicles (53,233 units, 93.7% of the total), followed by heavy utility vehicles (3,604 units, 6.3%).

Chart 1
Monthly Vehicle Sales (% change y/y)



Source: BBVA Francés Research using ASCOMA data

Chart 2
Annual Vehicle Sales (units)



Source: BBVA Francés Research using ASCOMA data

There was a substantial slowdown in growth in monthly sales in 2012 (see Chart 1) compared to 2011, when they had grown 20.2% y/y. There was a positive performance in the first half of the year - in most months - and a second half of the year in which sales contracted, except for September. In August, it became known that the IMESI internal tax would be hiked by 15% as of October for all types of vehicles. This triggered heavy advance purchases of vehicles in September, though sales then fell significantly in the last quarter of the year.

The following factors account for the sector's positive performance: a) a background of expansion in economic activity in Uruguay (our estimate for 2012 is 4.0% y/y) and interest rates slightly below those recorded in 2011; b) growth in real income of the population, due to both greater employment and also improvements in real wages c) furthermore, as we shall see later in this report, access to lending conditions improved due to a strengthening Uruguayan peso over the period, which, considering that imported vehicles account for 95% of the supply, prompted cheaper vehicle prices in terms of wages.

Why was there a slowdown in growth? It is important to take into account a) the considerable growth registered in 2010 and 2011 led to a strong increase in the number of new vehicles in the total vehicle fleet, which features relatively old vehicles, and b) the impact of the higher IMESI tax on demand.

Our estimates for growth in the Uruguayan economy for 2013 are at a similar level to the previous year (4.2% y/y), but with a different breakdown: we expect external demand to be more dynamic, while growth in both investment and private consumption should be lower than in 2012 (6.5% vs. 7.0% for the former, and 4.3% vs. 5.4% for private consumption),. We expect the trend towards strengthening of the peso to continue, albeit at a lower rate than the previous year, prompting further improvement in access to vehicle purchases due to increased wages in dollars. Therefore, we expect the moderate increase in sales of 2012 to continue, with growth around 4% y/y, in line with a relatively more mature market.

The sensitivity shown by the market to variations in the IMESI tax suggests that reductions in this tax would be an incentive towards a faster renewal of the existing vehicle fleet.

2. Chevrolet and Volkswagen remain leaders in sales

Although Chevrolet and Volkswagen are still leaders in sales of automobiles and light utility vehicles, their joint share fell compared to the previous year: they have gone from a total market share of 37.5% in 2011 to a 31.7% in 2012, particularly due to the sharp contraction for Chevrolet.

This performance is due to the strong penetration of lower-priced smaller engine vehicles. Nissan, Suzuki, Hyundai and Faw are the automakers which have most increased their market share in 2012.

Table 1
Sales of cars and light utility vehicles to the public by make

		2012		2011	
	Automakers	**units**	**Share %**	**units**	**Share %**
1	Chevrolet	9979	18.7%	13033	25.4%
2	Volkswagen	6938	13.0%	6212	12.1%
3	Nissan	3828	7.2%	3048	5.9%
4	Fiat	3654	6.9%	3390	6.6%
5	Suzuki	3290	6.2%	2471	4.8%
6	Peugeot	2648	5.0%	2818	5.5%
7	Hyundai	2568	4.8%	1630	3.2%
8	Chery	2556	4.8%	3394	6.6%
9	Renault	2354	4.4%	2104	4.1%
10	Ford	1855	3.5%	1572	3.1%
11	Faw	1551	2.9%	755	1.5%
12	Toyota	1506	2.8%	1376	2.7%
13	Citroen	1035	1.9%	809	1.6%
14	Geely	932	1.8%	701	1.4%
15	BYD	898	1.7%	1029	2.0%
16	Gwm	855	1.6%	960	1.9%

Source: BBVA Francés Research using ASCOMA data

Volkswagen is still the leading brand in the Heavy utility vehicles segment (trucks and buses), with 18.6% (its share is down 3.3%), now followed more closely by JMC (18.0%), whose share has increased significantly (3.4%). The other changes worthy of note are the increased shares of Jac and Kia, while the shares of Foton, Mercedes Benz and Iveco have been significantly reduced.

Table 2
Sale of heavy utility vehicles by make to public

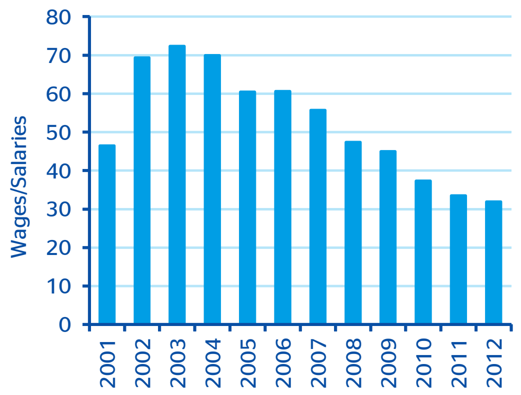
		2012		2011	
	Automakers	**units**	**Share %**	**units**	**Share %**
1	Volkswagen	672	18.6%	789	21.9%
2	Jmc	648	18.0%	526	14.6%
3	Jac	443	12.3%	311	8.6%
4	Foton	311	8.6%	381	10.6%
5	Kia	240	6.7%	68	1.9%
6	Scania	226	6.3%	231	6.4%
7	Mercedes Benz	199	5.5%	382	10.6%
8	Hyundai	171	4.7%	147	4.1%
9	Volvo	130	3.6%	114	3.2%
10	Iveco	122	3.4%	180	5.0%
11	Yutong	112	3.1%	38	1.1%
12	Aeolus	93	2.6%	119	3.3%
13	Ford	49	1.4%	95	2.6%
14	Howo	47	1.3%	50	1.4%
15	Freightliner	37	1.0%	10	0.3%
16	Renault	28	0.8%	38	1.1%

Source: BBVA Francés Research using ASCOMA data

3. Further growth in bank lending

Improved accessibility conditions to bank lending (see Chart 3) are associated with a lower increase in vehicle price in relation to salaries during the period. This is due to the appreciation of the exchange rate in a situation where automobile supply is predominantly imported, the greater participation of lower-cost cars and the persistent growth in real wages. Greater accessibility and the fact that interest rates have been slightly lower than in 2011 prompted greater financing of vehicle purchases.

Chart 3
Accessibility to vehicles



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

Chart 4
Car loans/invoicing

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

Collateral car loans, which during 2011 accounted for 6.9% of estimated sales, rose to 8.5% of sales in 2012 (see Chart 4).

In 2012, there were 208 new transactions of this kind in pesos and 1159 for those in dollars, compared with 159 and 752, respectively, in 2011.

Nevertheless, the proportion of automobile purchases which are financed by bank loans is still low when viewed in an international - or even regional - perspective. It is important to take into account that there are other forms of consumer financing. The use of personal loans for acquiring vehicles, the growing importance of leasing as a means of financing light and heavy utility vehicles, are other ways of financing the purchase of vehicles. Market sources indicate that around 15% of vehicles are bought with credit in Uruguay, suggesting high potential for growth in the car loan market taking into account that in Argentina 35% of units sold are financed, 60% in Chile and an even higher proportion in Brazil.

4. Local industry hit by external sector

In recent years, and, in particular, since 2010 - when both foreign and domestic investments matured – there was a strong growth process in the local auto manufacturing industry.

Uruguay's vehicle industry is made up of two sub-sectors: a) the three manufacturers, which supply approximately 5% of the local vehicle market, and b) the vehicle part sector, where domestic companies which supply the internal replacement market coexist with foreign companies focused largely on exports of automobile parts. Two of the three manufacturers are located in existing plants (Nordex and Oferol), while the third has been recently built (Effa).

Substantial growth, both in production (Table 3) and in exports (Table 4) during 2011 was halted last year due to the problems in placing exports in regional markets, stemming from lower growth in the Brazilian and Argentinean economies, and also the various non-tariff restrictions imposed on international trade by these countries. Another factor, though on a lower scale, were the lower exports to other non-regional markets due to the weak international situation.

As shown in Table 3, the total Manufacturing Industry reported growth of 5.8% y/y in 2012, while the number of hours worked fell 3.4%, implying a 9.5% y/y improvement in productivity per hour worked. However, in the Auto Vehicles branch, encompassing both car manufacturers and auto parts, production fell by 44.4% y/y over the same period, with hours worked contracting 33.7% y/y, tantamount to a 16.4% y/y fall in productivity per hour worked, thus eroding the improvement in productivity which had been observed from 2006 on.

Table 3
Industrial Activity indicators - Year-on-year change (%)

	Manufacturing Industry			Auto Vehicles		
	Production	Workers Employed	Hours Worked	Production	Workers Employed	Hours Worked
2007	5.9%	5.7%	3.8%	14.2%	6.9%	9.8%
2008	12.1%	2.4%	1.3%	24.2%	5.4%	5.5%
2009	-4.0%	-3.1%	-3.9%	-29.4%	-23.4%	-28.2%
2010	3.5%	2.1%	0.9%	41.4%	35.5%	35.4%
2011	0.5%	0.6%	0.3%	46.2%	16.1%	12.5%
2012	5.8%	-2.8%	-3.4%	-44.4%	-33.7%	-33.5%

Source: BBVA Francés Research using INE data

During this period, sales to the local market performed positively, as stated above, this leads us to conclude that the contraction in production was largely due to the poor performance of exports.

Table 4 shows how placements of Vehicles, automobiles and tractors, parts and accessories, fell 54.5% y/y last year due to the aforementioned difficulties, while imports fell by only 5.9% y/y, which means that the sector's trade balance recorded a negative result of around 1.0 billion dollars.

Table 4
Foreign Trade of Vehicles, automobiles and tractors, spare parts and accessories

	Millions of USD			% change y/y	
	Exports	**Imports**	**Balance**	**Exports**	**Imports**
2001	104.8	252.3	-147.5	-	-
2002	57.8	101.5	-43.7	-44.8%	-59.8%
2003	32.6	76.3	-43.8	-43.7%	-24.8%
2004	48.5	178.4	-129.9	49.1%	133.7%
2005	63.1	264.6	-201.6	30.0%	48.3%
2006	104.9	347.2	-242.3	66.2%	31.2%
2007	120.1	453.4	-333.3	14.5%	30.6%
2008	151.8	710.4	-558.6	26.5%	56.7%
2009	114.6	591.4	-476.9	-24.5%	-16.8%
2010	189.5	956.3	-766.8	65.4%	61.7%
2011	289.8	1184.3	-894.5	52.9%	23.8%
2012	131.8	1114.8	-983.1	-54.5%	-5.9%

Source: Research BBVA Francés sobre datos de Uruguay XXI

Significant recovery is expected in the sector in 2013, both due to moderate growth in the local demand, and also due to a better performance in the external trade. According to sources in the sector, exports will face stronger demand this year due to growth in regional partners and also due to the lifting of administrative restrictions on trade by the two main Mercosur partners. Thus, the contraction experienced in 2012 will be gradually offset.

Box. In the mid term, growth in vehicle fleet above the regional average

The rapid growth in the vehicle fleet is a phenomenon which is evident in emerging markets with high population density and steady economic growth. Over the last decade, the vehicle fleet of the EAGLE countries[1] increased 1.5 times, while Uruguay's stock remained stagnant due to the acute crisis of 2002/2003. In Asian countries, the fleet increased by 2.3 times due to strong growth in China, India and Indonesia. At the same time, vehicle demand in developed countries has run out of steam, leading to a significant slowdown in growth, due to the international financial crisis which began at the end of the last decade.

In this context, BBVA Research has estimated the growth in the vehicle fleets of various emerging markets in coming years; these countries will play important roles in developing the vehicle sector.[2]

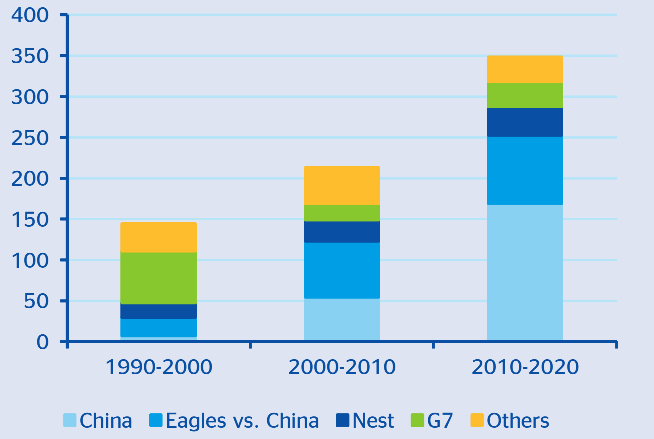
For that purpose, we built a long-term model to assess changes in the number of vehicles per thousand inhabitants as a function of income per capita, degree of urbanization, population density, financial depth and the quality of road infrastructures. The core model makes use of a non-linear relationship called the Gompertz curve, which associates car ownership levels with income per capita.

The idea behind this relationship is that the car per inhabitant ratio is very low for very low levels of income per capita, but it takes off at medium-low income levels, and grows very rapidly so as to reach certain saturation levels at high income levels.

According to this model, strong and sustained growth in income will fuel vehicle demand in emerging markets (see chart 5). In Latin America, Turkey and the rest of Asia, demographics will also be a very important factor. Thus, the Chinese vehicle stock is expected to increase fourfold over the present decade to become the world's largest. Brazil's vehicle stock is expected to reach the size of Japan, while Russia and India will edge close to that level, leaving the rest of the G6 countries behind. Developed countries, on the other hand, stand close to saturation levels both in terms of income per capital and also demographically, except for the United States. Sales in these countries depend on depreciation and technological breakthroughs.

Chart 5

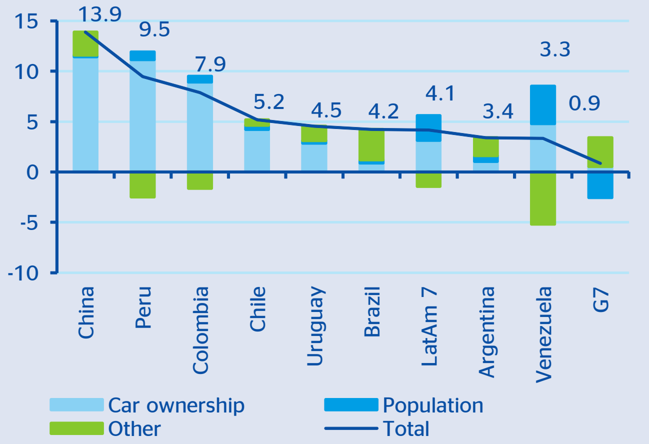
Increases in World Vehicle Fleet, by decades (millions)



Source: Research BBVA

Chart 6

Growth in Vehicle Fleet in 2010-2010 (pp, by components)



Source: Research BBVA

1: The term EAGLE (acronym for Emerging and growth-leading economies) has been coined by BBVA Research to refer to economies which will play an important role in world growth over the next ten years. The group currently consists of the following countries: Brazil, China, India, Indonesia, South Korea, Mexico, Russia and Turkey. There is another group of companies which would deserve this name in the future, and which are now included in what is called the Nest group, made up of Argentina, Bangladesh, Chile, Colombia, Egypt, Malaysia, Nigeria, Pakistan, Peru, the Philippines, Poland, South Africa, Thailand, Ukraine and Vietnam. For further information on the EAGLE countries see: http://www.bbvaresearch.com/KETD/ketd/esp/nav/geograficas/eagles/index.jsp

2: For further details of the model and the result, see the BBVA Research Economic Watch report "The key emerging markets for the automobile sector", http://www.bbvaresearch.com/KETD/fbin/mult/121010_EAGLEs_Auto_Projections_ES_tcm346-359405.pdf?ts=26112012

In Uruguay's case, a country with medium-high income per capita (which has a relatively developed - though old - automobile fleet) expected growth for the decade stands above the regional average. According to Chart 6, average annual growth would be 4.5% until 2020, which would imply going from a vehicle fleet of 640,000 units in 2010 to 930,000 ten years later.

However, it is important to take into account that growing automobile fleet numbers will also require greater road infrastructure, in order to prevent congestion problems and their associated costs. Uruguay has a road network of 8,738 km, only 37.7% of which is paved, and with signs of deterioration in maintenance. The World Economic Forum's Executive Opinion Survey assigns a rating of 3.6 to road quality (rating from 1 = extremely undeveloped and 7 = extensive and efficient). It is important to note that other countries in the region such as Chile (5.6), and Ecuador (4.4) are clearly in a better position.

Sustained growth in the automobile fleet thus poses important challenges in terms of investment in roads and highways, which will largely have to be carried out over the course of this decade.

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