BBVA | RESEARCH

Automobile Market Outlook

Chile

2013
Economic Analysis

- **New car sales in 2013 exceed expectations** and hit a record high of 367,000 units.
- **South Korea continues to be the primary source of cars sold in the local market,** but China is hard on its heels and has pushed Japan out of second place.
- **Sales figures for 2014 will be similar to this year's, at around 365,000 units.** The factors underlying this slowdown will be higher exchange rates, lower consumer confidence levels and a more sluggish employment market.
- **Economic growth and favorable employment conditions** are the key determining factors for the growth of the automobile fleet in the wake of the 2009 crisis.
- Despite disappointing short-term growth, the continued low motorization rate of our economy generates **a favorable outlook for the sector in the medium term.**

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Closing date: December 2, 2013

1. Summary

In 2013, new car sales will total around 367,000 units, representing a new all-time high for the sector and an 8.2% increase over the previous year. This figure exceeds the industry's and our own expectations published at the beginning of the year.

The domestic automobile industry has enjoyed a favorable economic climate in recent years due to positive economic growth, an increase in employment, and favorable financial credit terms.

Furthermore, new suppliers have entered the market -particularly makes from China and to a lesser degree from India- which have increased the array of possibilities available to consumers and driven growth in lower-priced segments, allowing low-income families to afford a new car.

This year has seen a fall in the prices of new and used cars, but particularly the latter, which have undergone an average drop of 30% since 2005. This is an element that is doubtless a factor in the sector's dynamism and is related to a stronger peso and increased competition.

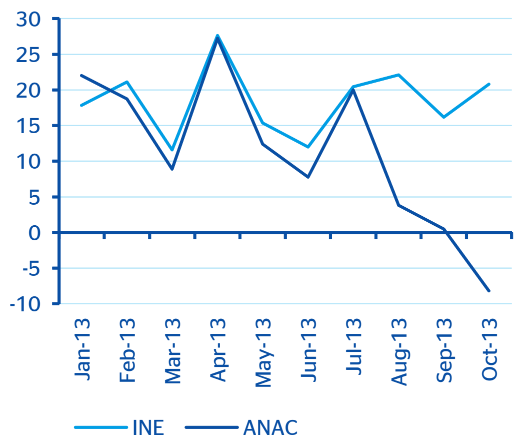
The national motor vehicle fleet has seen a marked rise since 2004, and according to the evolution of estimated sales, is set to exceed 4 million in 2013. Despite strong growth in these years, the market still has much room to pursue its expansion as the economy continues to grow, as can be seen from the motorization rate in Chile compared to that of higher-income countries. This situation poses a serious challenge for the authorities in terms of developing a road infrastructure and generating real public transport alternatives.

For 2014 we estimate that the market will continue to see a substantial rate of new car sales, reaching a figure of 365,000 units. The main factors underlying this estimate take account of the negative contribution of the effect of the devaluation of the exchange rate, lower consumer confidence levels and an increase in the unemployment rate, all of which will amply offset the positive effect on sales created by economic growth and lower interest rates.

2. New car sales exceed expectations in 2013

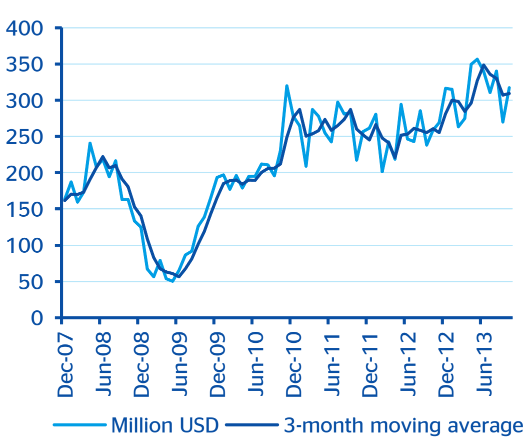
According to the figures from the National Automotive Association of Chile (ANAC), between January and October 2013, sales of new light vehicles reached 305,857 units, representing a 10.4% increase over the same period in 2012. Although this growth is significant, it is worth noting that between August and October the figures are to some degree affected by the suspension of the activities of the Civil Registry for 18 working days between 29 August and 26 September, which led to a delay in new vehicle registration. This information source may therefore indicate a somewhat greater slowdown in sales than is in fact taking place, although according to the ANAC itself, this difference would not be significant. If, for example, we take the sales indicator from the National Institute of Statistics (INE) - which is based on surveys- sales show an average growth of 18.5% y/y in October. Therefore, if we consider the data until July, ANAC sales grew by 16.7% y/y on average, very much in line with the INE indicator which grew an average of 18.0% y/y (Chart 1).

Chart 1
Car sales in 2013 (ANAC/INE) (% y/y change)



Source: ANAC, INE, BBVA Research

Chart 2
Car imports. (Millions of USD, CIF)



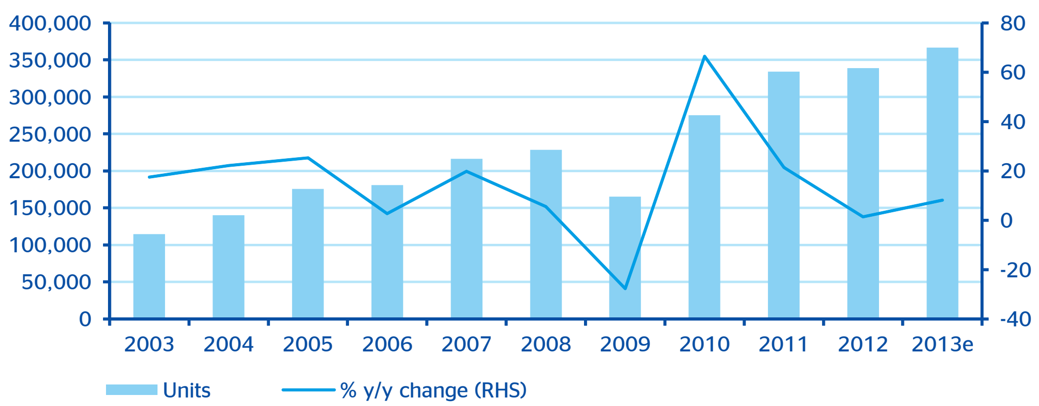
Source: BCCh, BBVA Research

Another indicator offering evidence of the market's dynamism this year is the figure for car imports, which, according to data from the Central Bank, total US$3.137 million to October, 25% more than imports for the same period in 2012 (Chart 2). In addition, although imports have slowed to US$300 million a month, this figure is still above the US$260 million decrease in the period 2011-2012.

New car sales this year were higher than predicted both by BBVA Research and by industry sources. Indeed, in our Automobile Outlook report published in January this year, we predicted that around 357,000 units would be sold, representing an annual increase of 5.6%. The 2013 sales figures also brought a pleasant surprise for industry representatives. In this case, at the start of the year the ANAC predicted that total sales would total between 345,000 and 355,000 units, and this figure was revised upwards to 360,000 units in July.

With the information available, and without correcting for problems caused by the aforementioned delay in the Registry, we estimate that this year will end with sales of around 367,000 units, equivalent to an increase of 8.2% over 2012 (Chart 3). We identify the main factors underlying this performance as deriving from the growth in aggregate economic activity and the dynamism of the labor market, although financial credit terms and exchange rate movements also had a positive effect.

Chart 3
Sales of new cars (units, % y/y change)



Source: ANAC, BBVA Research

3. Market characterization in 2012-2013

The breakdown of the sales information by brand to October 2013 reveals that the six top-selling makes in 2012 maintain their leadership, although with a change in position between Kia and Nissan, given the loss in share of the latter (Table 1). Over a longer time horizon, there is still evidence of a reduction in the share of the leading brands and a relative gain in the "Others" group, which is up 2.4 points this year with an increase of 8.5 percentage points since 2010, and now represents a third of the market. Worth noting in this group is the greater share by Chinese and Indian brands, but also the increase in the German brands Volkswagen and Mercedes Benz.

Table 1
Market share of the main brands (% of total)

2013 Ranking	Brand	2010 sales	2011 sales	2012 sales	Sales to Oct. 2013	Change since 2010
1	Chevrolet	17.1	17	16.9	15.1	-2.0
2	Hyundai	12.3	10.5	10.4	9.3	-3.0
3	Kia	8.7	8.3	8.5	8.5	-0.2
4	Nissan	11.8	10.4	10.1	8.3	-3.5
5	Toyota	8.6	6.9	7.8	7.2	-1.4
6	Suzuki	6.5	6.5	5.1	5.8	-0.7
7	Ford	2.5	3	3.3	3.8	1.3
8	Peugeot	2.5	2.6	2.6	3.3	0.8
9	Mazda	2.9	2.8	2.3	3	0.1
10	Mitsubishi	2.7	2.7	2.5	2.8	0.1
11	Others	24.4	29.3	30.5	32.9	8.5

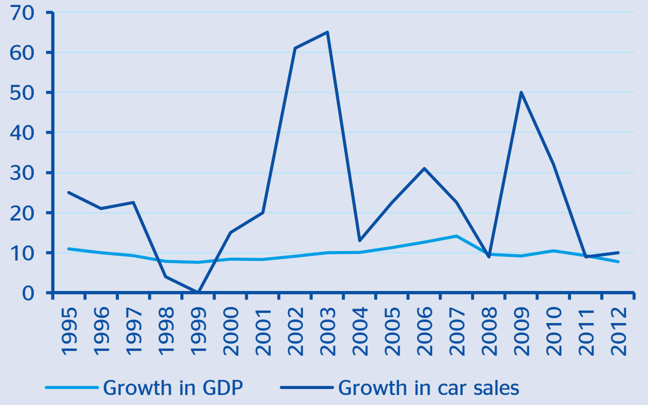
Source: ANAC, BBVA Research

A survey of the import figures by country of origin according to the information from ANAC shows that in 2012 South Korea was once again the primary source of the new cars sold on the local market. However these figures reveal a reduction in total share for the second year running, giving way to Chinese imports, which overtook Japan as the second country of origin of national sales. The development of the Chinese car market and its impact on the markets is discussed in Box 1.

Box 1. Chinese cars: evolution of the sector and its impact on global prices

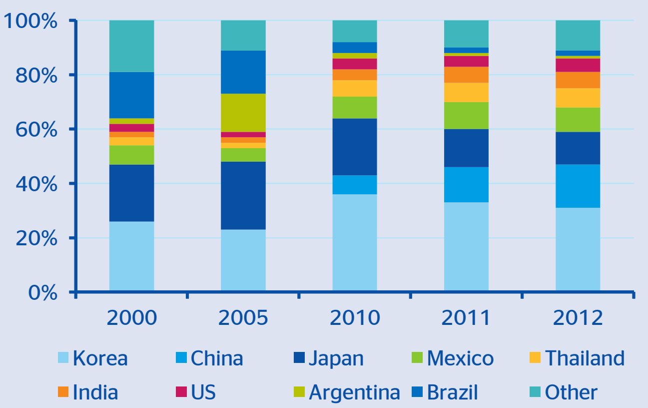
The Chinese car industry has grown at breakneck speed. Since 2009, car production in China has exceeded that of the European Union, the USA and Japan rolled into one. This increased production and array of brands has been stimulated by the Chinese government, but has also gone hand-in-hand with economic growth (Chart 4). In line with the growth in demand and local output there has also been an increase in the penetration of Chinese cars in world markets, and Chile has been no exception (Chart 5).

Chart 4
China: Annual growth of GDP and car sales (%)



Source: NAC, INE, BBVA Research" por "IHS Global Insight (for 1995-2009)

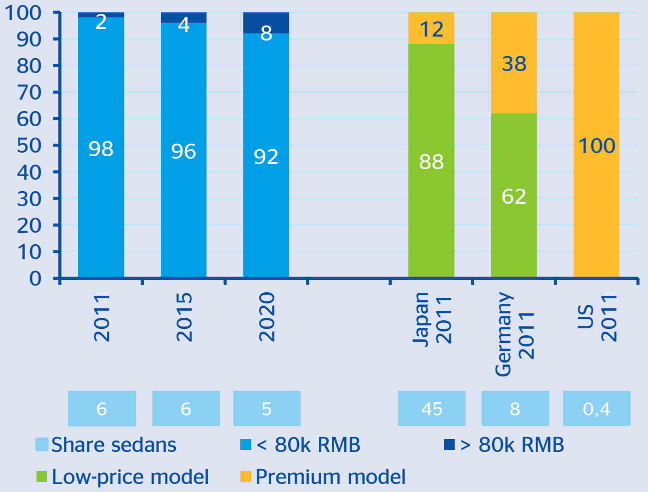
Chart 5
Sales of light and medium vehicles in Chile (by country of manufacture)



Source: ANAC, BBVA Research

The Chinese market is maturing fast and consumers have begun to refine their tastes and demands. Even more importantly, the purchase of a first vehicle naturally leads to the need for subsequent and better models (Chart 6). In this context, the automobile market is in the process of developing and enhancing along the lines of what occurred in developed markets.

Chart 6
Evolution of sales by type of car in China (%)



Source: McKinsey GOG analysis; McKinsey Insights China; Global Insight; team analysis

Structurally, the Chinese economy is set to grow between 7% and 8%, and the percentage of population resident in urban areas to increase to 60% in 2020, from 51% in 2012. This increase in urbanization will have an impact on mobility demands. Furthermore, high-income households –above RMB 80,000– will go from 17% in 2012 to 58% in 2020. Higher income and the greater penetration of cars suggest that saturation levels are still a long way off. In addition, the quality and coverage of the road infrastructure should continue to increase, facilitating penetration. All the above are reason to expect the Chinese car industry will continue to grow at a high rate.

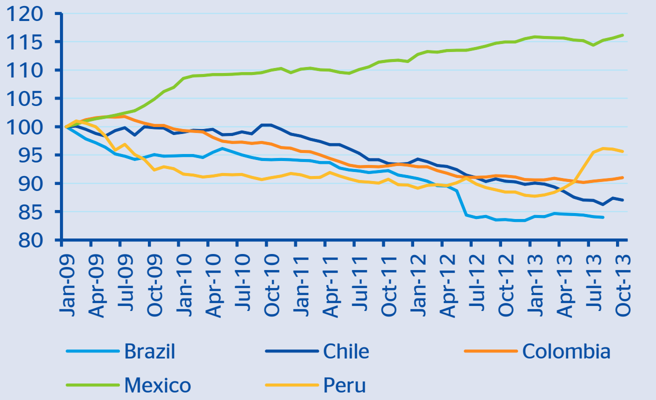
There are a number of challenges facing the Chinese car industry. One of these is to improve the positioning of the "*Made in China*" brand. The government has created stimuli to increase the production of lower-capacity vehicles –particularly under 1,600 cc– and offered subsidies to farmers to replace their vehicles. This is designed to improve the brand locally, with a view to doing so globally further down the line. Another challenge is meeting the demand for larger vehicles (SUV), and finally, meeting the demand of more sophisticated consumers who have already moved beyond their first car. All the above will probably lead to a consolidation of brands and producers, and even to mergers and acquisitions with foreign companies, some of which already have *joint ventures* in place with local firms.

Has the rapid penetration of Chinese cars had an impact on prices? As can be seen in Chart 7, car prices in Latin America have fallen substantially in the last five years, with the exception of Mexico. In the case of Peru, an increase can be seen at the end of the sample, related to the devaluation of the local currency. However, this rise also occurs in the context of a long-term downward trend.

A range of factors could explain this widespread price decrease, including demand, supply and financial credit terms. However, the period in our review was characterized by strong economic growth and favorable financial credit terms in the region, which, *ceteris paribus*, should stimulate a rise in demand and prices. Therefore, the most likely candidates to account for the fall in prices are the evolution of parity with the dollar –which affects the price of imported cars– and a greater supply of cars. In the case of Chile, the increased supply of cars -particularly Chinese- appears to be a significant factor in explaining the drop in prices. Indeed, the penetration of Chinese brands into the market which began in 2007 already reaches a 16% market share. As is well-known, these brands have made the market more competitive in general terms, and have specifically offered a relatively lower price mix than the average for other brands, which may be having an impact on the drop in prices at the aggregate level. This pattern is repeated in countries like Peru, Brazil and Colombia where the penetration of Chinese makes is also significant, although somewhat less than in Chile. In contrast, the low Chinese penetration in Mexico coincides with the rise in prices in that country in recent years (Chart 8).

Chart 7

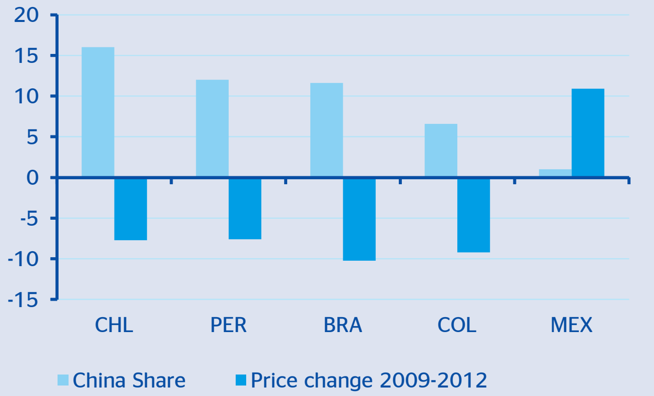
Car prices in Latam countries (January index) 2009=100)



Source: INE, IBGE, INEI, DANE, INEGI, BBVA Research

Chart 8

Penetration of Chinese cars in Latam and average car price variation in 2009-2012 (%)



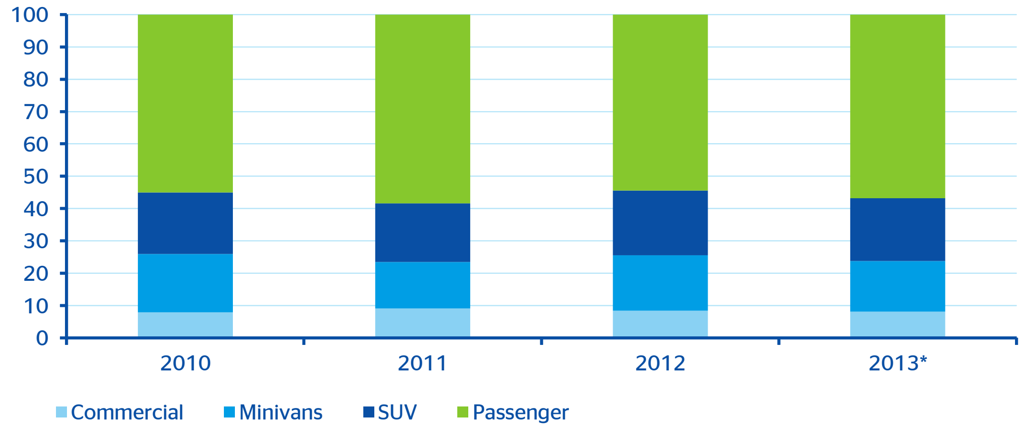
Source: INE, IBGE, INEI, DANE, INEGI, BBVA Research

Looking forward, the increase in labor costs in China and the stronger RMB are issues that transversely impact the country's export industries, while maintaining a certain upward pressure on prices and, consequently, compensatory demands for gains in productivity. In the automobile industry, consumer demands for technological sophistication are added to the environmental requirements of the authorities. Against this background, we do not see any elements to suggest further price drops for Chinese cars in the coming years.

Chart 9 shows the evolution of sales by segment with data to October 2013. Here it is evident that although the proportions are the same as in previous years, this year's sales show a lower share of the commercial and minivan segments associated mainly with company use, and a greater share of the passenger segment, more linked to family use.

Chart 9

New light vehicles by segment (% of share)

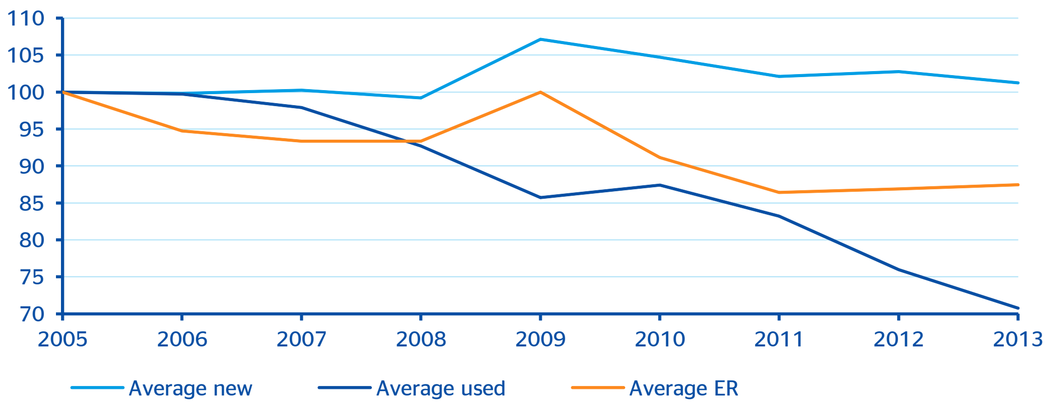


* Figures estimated with information to October 2013.
Source: ANAC, BBVA Research

Prices for new and used cars declined in 2013. The information available to October 2013 from the INE shows that after the increase in 2009, prices of new cars fell in the two following years in line with the stronger peso, until eventually stabilizing at a slightly higher level than pre-crisis prices (Chart 10). In contrast, used car prices have followed a markedly downward trend with an accumulated decline of 30% since 2005.

Chart 10

Prices for new and used cars (base index 2005=100)



Source: INE, BBVA Research

Against this backdrop, 2012 saw a greater concentration of sales in the lower price segments, up to $7 million –from 53% to 60%–, with a reduction in the share of car sales priced over $11 million (Table 2). With information to the close of 2012, the $5 to $7 million segment continued to see the greatest sales, with a share of 40%, while 80% of the sales corresponded to cars with a value of less than $9 million.

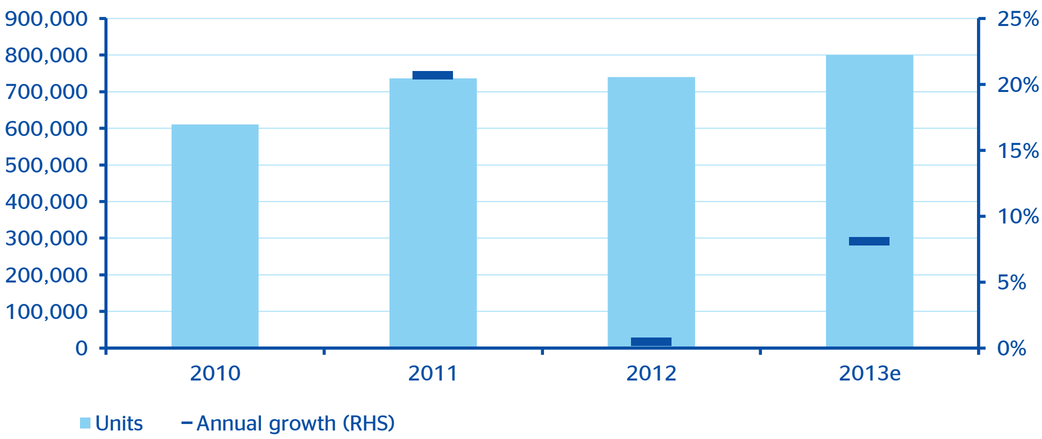
Table 2
Share by price range of passenger vehicles (millions of pesos and %)

Price range	2010	2011	2012
Up to 5 million	13.9	16.9	19.6
from 5 to 7 million	39.2	35.9	40.4
from 7 to 9 million	19.3	21.6	20.1
from 9 to 11 million	11.2	8.5	8.8
from 11 to 13 million	4.4	4.8	3
from 13 to 15 million	4.4	5.7	2.6
More than 15 million	7.6	6.6	5.5

Source: ANAC, BBVA Research

In the used car market the first four months of this year saw sales of 274,456 units, 7.8% more than in the same period in 2012. Broken down by brand, Chevrolet was the market leader with a share of 16.9%, followed by Nissan with 9.9% and Hyundai with 9.8%. The closure of the Civil Registry also affected the registration of used car sales; however industry sources indicate that over 800,000 units could be sold this year, concentrated in the segment under $5 million. Considering that 740,067 units were sold in 2012, this market would have seen growth of almost 8% y/y in 2013, thus recovering its dynamism -in common with the new car market- after the poor performance of the previous year when it only grew by 0.5% (Chart 11).

Chart 11
Used car sales (units and y/y change)



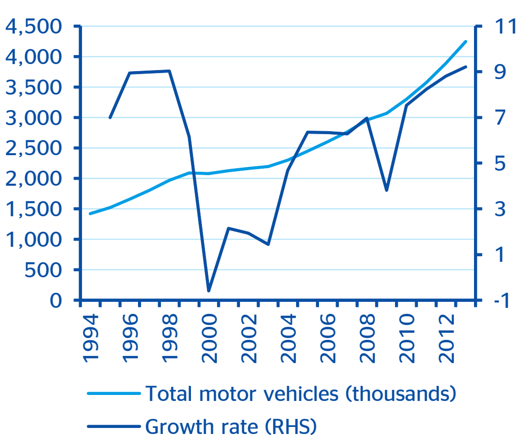
Source: CAVEM, BBVA Research

4. Medium-term market trends

The domestic automobile sector has enjoyed a favorable economic climate in recent years, due to the positive impact of economic growth, employment conditions, and favorable credit terms on the growth of sales. Moreover, new suppliers have entered the market -particularly brands from China and to a lesser degree from India- which have increased the array of possibilities available to consumers and at the same time driven growth in lower-priced segments. This has led to greater access by families to new cars and fueled a drop in prices, as indicated in Box 1.

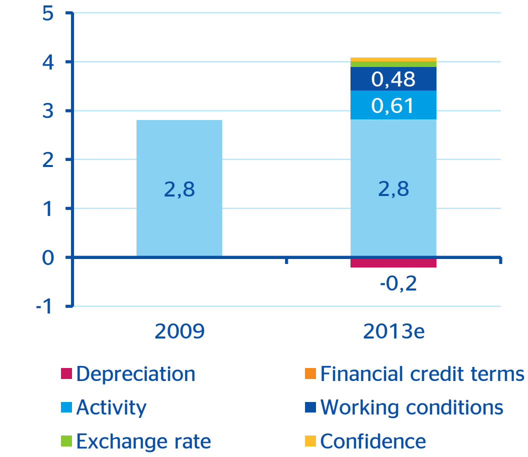
The national motor vehicle fleet has enjoyed significant growth since 2004, reaching a figure of 3,885,581 units at the close of 2012. According to the evolution of estimated sales, and an estimate of the rate of car withdrawal, the national fleet will exceed 4 million in 2013 (Chart 12).

Chart 12
Motor vehicle fleet (units, % y/y change)



Source: ANAC, INE, BBVA Research

Chart 13
Light vehicle fleet 2009-2013 (millions of units)



Source: ANAC, INE, BCCh and BBVA Research

Using a model of the factors determining car sales, we estimated the effects of several macroeconomic variables that underpinned the growth in the automobile fleet in Chile in the period 2009-2013.

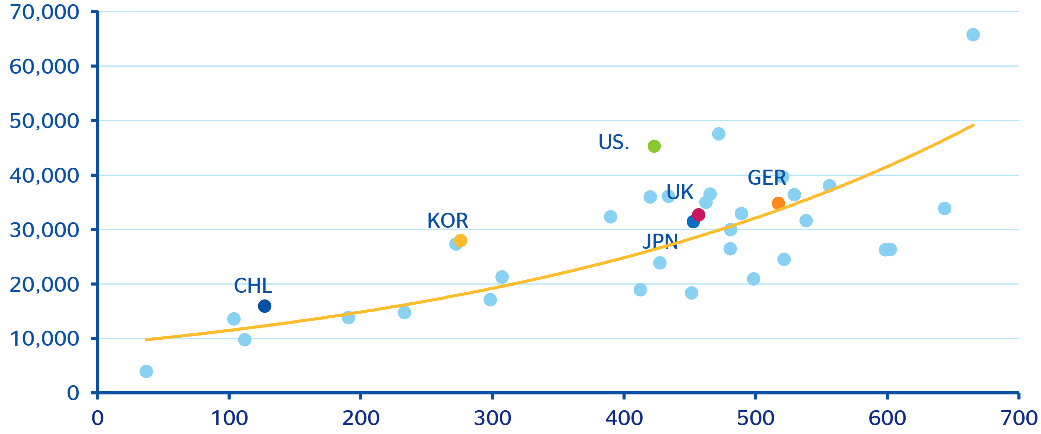
Given that our calculations are based on models for light vehicle sales, we used a particular measure for the automobile fleet. We thus excluded from the automobile fleet definition recorded by the INE the stock of heavy vehicles, i.e. cargo transport -basically trucks-, and vehicles for collective transport with a greater capacity, which account for a relatively lower percentage of the total fleet.

Given this definition -which we could call light vehicle fleet-, the total figure for cars in Chile was 2.8 million units by the end of 2009, while for the end of 2013 we predict a total of 3.9 million. This represents a fleet increase of around 38% in the last four years, equivalent to 1.1 million (Chart 13).

According to our calculations, the aggregate economic activity and the favorable conditions in the labor market were the main drivers of the increase –net of depreciation– in the automobile fleet in Chile throughout the period considered. In second place comes the exchange rate –which showed certain stability at low levels throughout the period of analysis– and consumer confidence, although these elements -in spite of their positive impact- were relatively less important.

Therefore, in spite of the high growth in the post-crisis years and the lower anticipated short-term growth, the market still has much room to pursue its expansion while the economy continues to grow. In fact, taking data from the World Bank and the OECD, we can see that the rate of motorization in Chile is consistent with its per capita income and, insofar as the economy continues to develop, this rate is set to continue increasing in line with the situation in higher-income countries (Chart 14).

Chart 14
Purchasing power and motorization rate, 2010 (USD per capita PPP)



Source: OECD, World Bank, BBVA Research

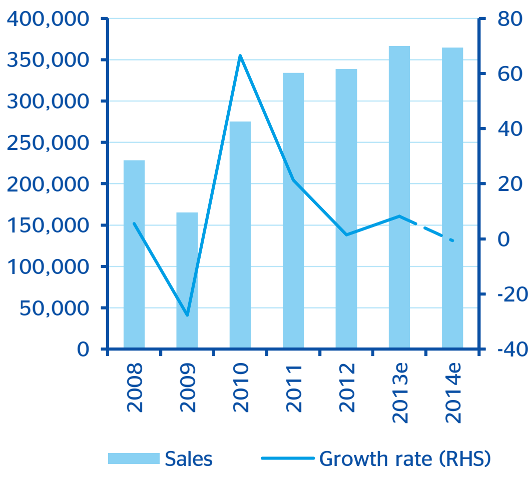
5. Projected car sales for 2014

In 2013 new car sales will total 367,000 units, representing an annual growth of 8.2%. On this occasion we see the greatest contribution to sales as coming from favorable conditions in terms of aggregate economic activity, and from the labor market, which together explain the lion's share of this year's growth in sales. In addition to this, there is the positive impact of favorable financial credit terms -interest rates at low levels with further decreases on the horizon- and an exchange rate that on average remained at around $495 per dollar, which we consider to be below its long-term value. We estimated that these elements contributed +1.9% and +1.1% to growth in sales in 2013, respectively.

For 2014 we estimate a sales figure of 365,000 units, representing a slight annual decline of 0.6%, partly due to a demanding basis for comparison (Chart 15). Although sales are expected to level off, we predict a significant change in the factors determining growth. In the first place, we see a minor contribution from economic activity -accounting for +5.3% as opposed to +5.6% in 2013- which is consistent with our scenario of a slightly lower growth in GDP predicted for 2014. Our expectation for higher monetary stimulus and moderate cuts in the monetary policy rate during 2014 points to a slight increase in the impact of financial credit terms, which would contribute +2.4% to growth in sales in 2014 versus 1.9% in 2013 (Chart 16).

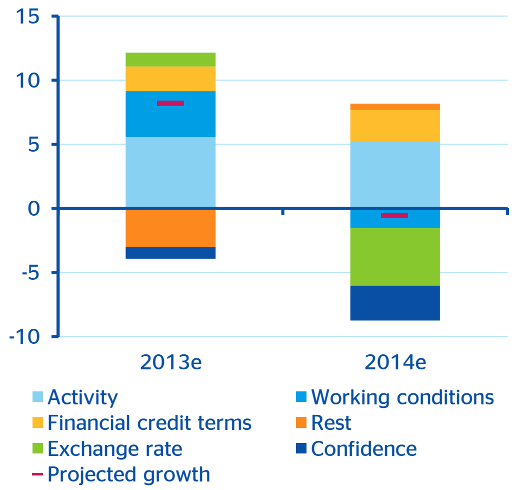
Lastly, these positive impacts would be offset by a lower exchange rate, the convergence of confidence levels to more neutral levels, and a rise in the unemployment rate over the next year. We anticipate the contributions to sales growth associated with these factors to be -4.5%, -2.7% and -1.6%, respectively.

Chart 15
Sales of new light cars (units, % y/y change)



Source: ANAC, INE, BCCh and BBVA Research

Chart 16
Contribution to growth of new light car sales (%)



Source: ANAC, INE, BCCh and BBVA Research

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