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Automobile Market Outlook

Chile

2012
Economic Analysis

- **New vehicle sales rose 1.4% in 2012,** above sales in 2011, despite the negative forecasts.
- **Chevrolet and Hyundai continue to be the market leaders,** but their leadership is being eroded.
- **Financial credit conditions in the automobile market remained favorable in 2012** and will continue to be so in 2013, according to our interest rates and real exchange rate estimates.
- **Looking ahead to 2013, we expect that the favorable performance in key factors for car sales should lead to an estimated 357 thousand units being sold.** This growth should bring the number of people per car to 5, still leaving margin for further growth in the automobile market.
- **Towards 2020, the auto fleet should reach 4.8 million units** with a people per car number of 3.8, similar to the current level in Argentina.

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Closing date: January 7, 2013

1. Summary

Sales of new vehicles surprised the market, which was expecting a sharp fall against 2011. Our scenario, however, included a slight increase in sales for 2012, based on a weak external scenario, but well above the decline seen in the 2009 financial crisis, together with a favorable domestic scenario with economic growth around its potential level, an appreciated exchange rate against the closing level in 2011 and favorable financial credit conditions. Lastly, new vehicle sales were up by 1.4% in 2012, amounting to 339 thousand units, even above our forecast released at the beginning of the year (337 thousand units).

Sales by makes and segments show a slight recovery in Japanese and European manufacturers, in line with the way these countries' currencies have performed against the dollar, while by price ranges, the share of intermediate value cars in total sales increased. On the other hand, growth in second hand vehicles sales has outstripped growth in new vehicles.

This new peak in car sales would bring the total car fleet to 3,466,817, implying a motorization rate of 5 people per car, in line with the income levels in the Chilean economy. In addition, expected future economic growth leaves a margin for a higher motorization rate in the medium term.

For 2013, we expect new vehicle sales of approximately 357 thousand units, equivalent to an annual growth of 5.6%. This estimate assumes that financial credit conditions will remain favorable in interest rates and stable in terms of lending standards. Furthermore, the exchange rate would only depreciate slightly over the course of the year, while business activity and incomes would remain buoyant.

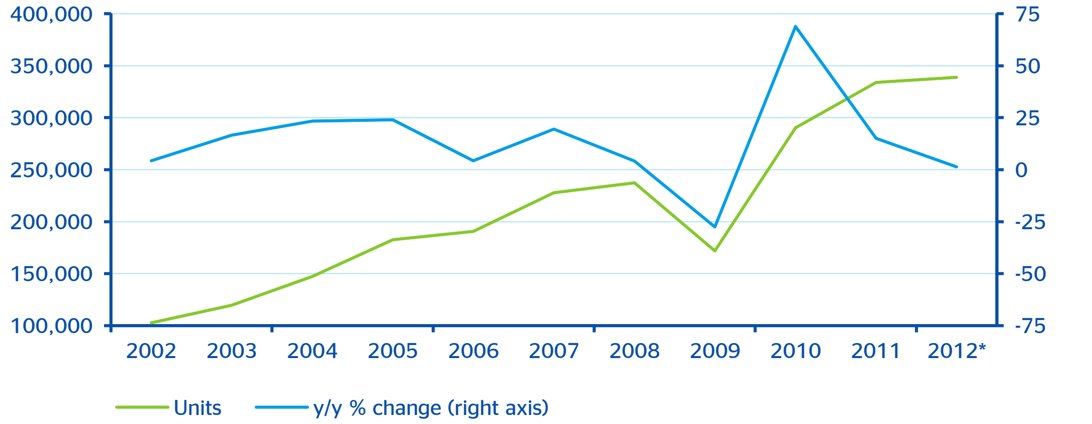
Towards 2020, the auto fleet is expected to reach 4.8 million units, equivalent to 3.8 people per vehicle. This figure is still a long way above the level of developed economies, and would come close to Argentina's current figure of 3.7.

2. Surprising rise in sales, setting a new record in 2012

According to the National Automotive Association of Chile (ANAC), 338,826 light vehicles were sold in 2012, 1.4% above sales for 2011. Although this growth falls a long way short of the figure for 2011 (15.1%), it is a big surprise when considering market consensus at the end of 2011 and at the beginning of 2012. In fact, in its January 2012 report, the ANAC itself estimated sales of between 280 and 300 thousand units, which would have been equivalent to falls of 15.2 and 9.1%, respectively. In the Chilean automobile market, the supply of vehicles is totally imported, and given the high costs of stock maintenance, expected low demand triggers falls in imports and in ready for sale vehicles. Thus, estimated falls in sales for the year became a self-fulfilling prophecy, though fortunately only in the first four months of 2012, when sales were effectively below the previous year's levels. However, the buoyant demand eventually led to higher imports, and given the lag between the import order and being ready for sale on this market, the negative trend began to be reversed by May.

In Automobile Market Outlook 2011, published in January 2012, we estimated sales of 337 thousand units for 2012. This forecast, which was considered optimistic at the time, actually turned out to be below the almost 339 thousand cars sold last year (Chart 1). Our forecast was based on a relatively benign macroeconomic external scenario, with a weak international setting but far better than the crisis scenario which triggered the slump in sales in 2009. Factors shaping vehicle demand were thought to be the appreciation of nominal and real exchange rates, continuing positive financial credit conditions, improved consumer expectations and favorable economic growth. In fact, GDP growth in 2012 will be even higher than we had estimated.

Chart 1
Sales of new cars (units, y/y % change)



(*) BBVA Research forecast
Source: ANAC and BBVA Research

Sales by makes and segments show slight recovery in Japanese and European manufacturers in the local market

Based on broken down sales figures to November 2012, the 7 makes with the highest sales continue with the leading position they had in 2011. In Table 1 we can see how Chevrolet, Hyundai and Nissan, in that order, keep their positions as the leading brands with slight falls in their market shares. They are followed by Kia, Toyota, Suzuki and Ford, which maintain their relative position (though Suzuki's share has fallen slightly) while the other 3 show the highest increases in market share, with Toyota's case particularly worthy of note. It is interesting to note that, with the exception of Suzuki, the Japanese makes have stopped or reversed the decline seen in previous years. This would be in line with the performance of the Yen, which depreciated 4% against the dollar in 2012, in contrast with the strong appreciations in 2010 and 2011. It was a similar story, albeit on a lower scale, with the euro, which depreciated 2.7% over the year, following what was essentially a stable performance in 2011. The relative stabilization, and - in some cases - increase in the share of US and European makes would be to some degree underpinned by the appreciation of the Korean Won and Chinese Yuan.

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

2012 Ranking	Make	2009 sales	2010 sales	2011 sales	Sales to Nov. 2012
1	CHEVROLET	18.3	17.1	17.0	16.7
2	HYUNDAI	16.0	12.3	10.5	10.4
3	NISSAN	10.6	11.8	10.4	10.2
4	KIA	10.1	8.7	8.3	8.6
5	TOYOTA	7.5	8.6	6.9	7.8
6	SUZUKI	6.8	6.5	6.5	5.2
7	FORD	2.9	2.5	3.0	3.2
8	PEUGEOT	2.4	2.5	2.6	2.6
9	MITSUBISHI	3.2	2.7	2.7	2.6
10	CHRYSLER	2.6	2.4	2.7	2.5
11	Other	19.6	24.9	29.4	30.2

Source: ANAC

Table 2 displays the origin of imported light vehicles according to ProChile figures. According to this information, there was a substantial drop in imports from Korea and Japan in 2011, and recovery in imports from Europe and North America. For 2012, import origin information is only available for the first quarter of the year. These partial figures point to a sharp upturn in imports from Korea, and falls largely from Europe and Japan.

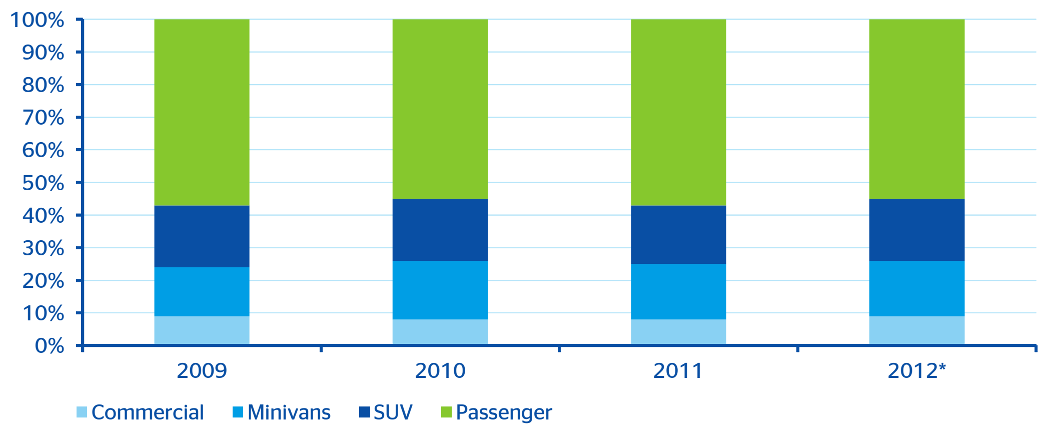
Table 2
Origin of import of light vehicles (% market share)

Country	2010	2011	1Q2012
SOUTH KOREA	31.9	29.9	35.1
CHINA	4.0	7.5	7.3
US / CANADA	8.9	9.5	8.8
EUROPE	15.2	19.0	17.3
JAPAN	29.8	21.7	19.6
LATAM	8.6	9.8	9.3
OTHER	1.7	2.5	2.5
Total	100.0	100.0	100.0

Source: ProChile

Chart 2 shows the performance of sales by segment. Figures to July 2012 show that essentially the share of the different segments remains stable, with passenger vehicles continuing to account for around 55% of the total, SUVs approaching 20%, and vans and commercial vehicles standing at approximately 17% and 9%, respectively.

Chart 2
New light vehicles by segment (% of share)



(*) Data as of July 2012
Source: ANAC

New vehicle sales show a higher share of intermediate value vehicles

According to National Statistics Institute of Chile, prices of passenger vehicles dropped by 2.8% in 2010, fell again by 0.8% in 2011, and recovered 0.8% during the first half of 2012. Given these small changes in the average price index, the performance of vehicle sales by price range can be revised without making further adjustments against previous years (Table 3).

Table 3
Participation by price range of passenger vehicles (millions of pesos and %)

Price range	2010	2011	2012*
Up to 5 million	13.9	16.9	13.2
From 5-7 million	39.2	35.9	40.7
From 7-9 million	19.3	21.6	26.3
From 9-11 million	11.2	8.5	8.5
From 11-13 million	4.4	4.8	3.7
From 13-15 million	4.4	5.7	2.4
More than 15 million	7.6	6.6	5.2

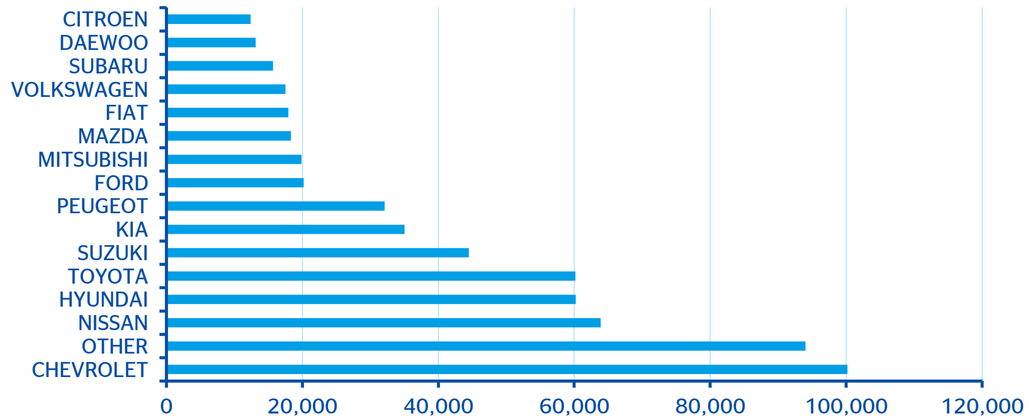
(*) Data as of July 2012
Source: ANAC

The most important phenomenon is the higher share in sales of intermediate priced vehicles, in particular, the segments from 5 to 9 million pesos. This increase has come about largely at the expense of a lower share in sales of higher value vehicles. It is important to bear in mind, however, that these data might also be consistent with stable or increased sales of lower and higher value cars. It is also interesting to note that these results are also in line with the increase in real wages in recent years.

Growth in second hand vehicles sales has been slightly higher than growth in new vehicles

In the second-hand vehicle market, according to the National Chamber of Automobile Retailers of Chile (CAVEM), and judging by the transactions registered in the National Civil Registration and Identification Service, 625,158 units have been sold this year, 1.8% above sales for the same period of 2011. Therefore, used vehicle sales now account for 69% of total sales of light vehicles. Chevrolet has a share of 16% of these sales, Nissan 10.2% and Hyundai 9.6%, figures rather similar to these leading makes' shares in new car sales (Chart 3).

Chart 3
Sales of second-hand vehicles January-October 2012 (units)



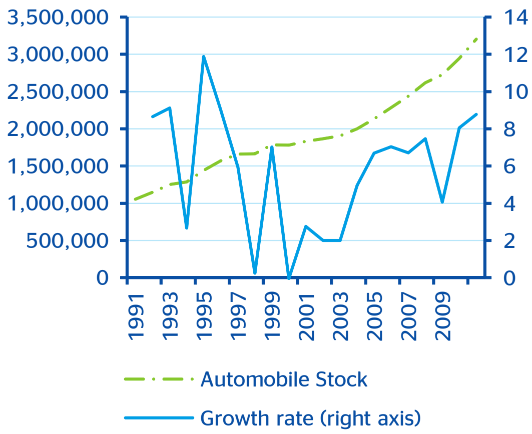
Source: CAVEM

Vehicle Fleet growing in line with higher per capita income

The number of motor vehicles on the road in Chile totaled 3,571,219 units at the close of 2011, according to the 2011 Vehicle Fleet Report by the National Statistics Institute (INE). Among these, 3,203,760 units were light vehicles (Chart 4).

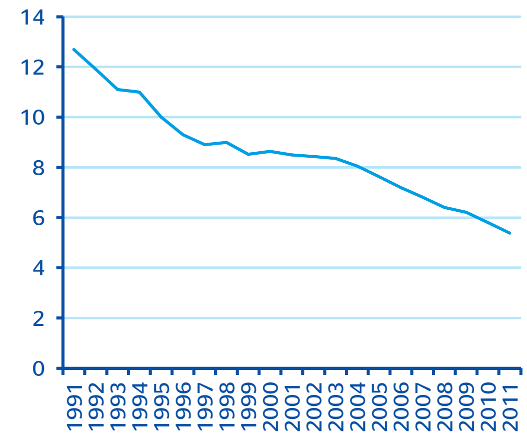
In terms of the motorization rate defined by people per car, the gradual reduction in the indicator observed over the last 20 years has continued. As of 2011, there would be 5.4 people per car (Chart 5), and according to sales and our automotive fleet estimate for 2012, 3,466,817 units, this indicator would stand at 5 people per car. However, as we stated in our Automobile Outlook 2011, Chile's figures is still a long way off from those of developed economies and even of leading countries in the region, such as Argentina, where for this year it is estimated to reach 3.7 people per vehicle (Argentina Automobile Market Outlook 2012).

Chart 4
Light vehicle fleet (units, y/y % change)



Source: ANAC, INE and BBVA Research

Chart 5
Motorization rate (people per car)



Source: BBVA Research

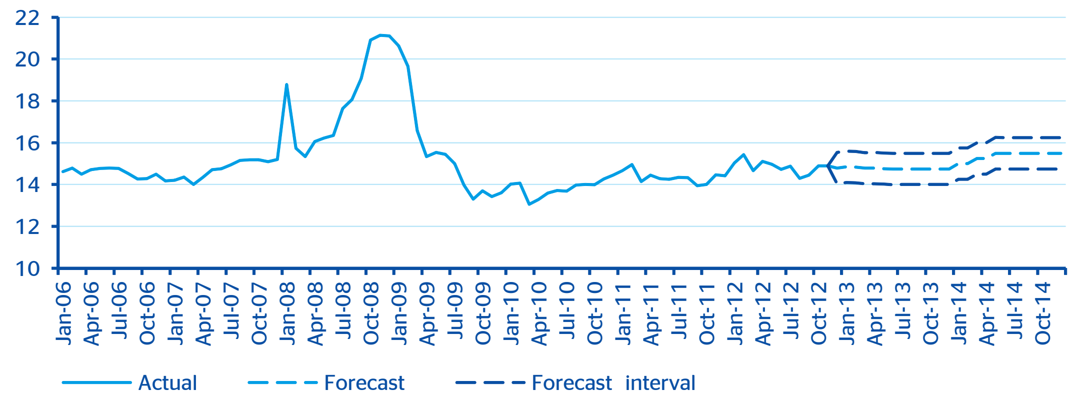
3. Favorable financial credit conditions for the medium term

Stable interest rates and lending conditions point to a favorable scenario for the auto market

Perceived demand for consumer credits remained buoyant over the last year, in line with the favorable performance in the labor market, higher wages, stability of monetary policy defined by the Central Bank and the fall in implicit spreads for these kinds of loans on the system. According to the quarterly credit condition survey of the Central Bank, however, these credit conditions show stricter parameters for granting these kinds of loans over the year, reflecting a more cautious position by financial institutions, largely caused by external uncertainties.

In the medium term, using consumer credit interest rates for amounts higher than UF200 (USD9.000) as a reference, we estimate that consumer financing costs will remain relatively stable, after reaching levels of around 15% per annum and showing a certain fall in spread against the base interest rates. This scenario of costs assumes stability in monetary policy and risk premiums. It also considers lending conditions at similar levels than at present, offering a favorable outlook for car sales financing in the medium term (Chart 6).

Chart 6
Interest rate on consumer loans (% nominal annual)



Source: SBIF

The exchange rate would benefit the increase in vehicle sales in the medium term

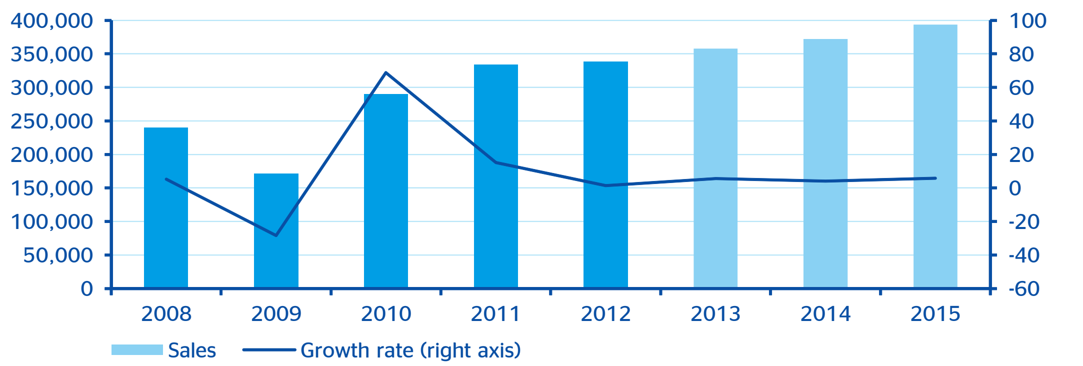
During 2012, the peso/dollar nominal exchange rate tended to appreciate, in an environment of high copper prices and a significant flow of capitals towards the Chilean economy. Thus, after ending 2011 at $520 per dollar, the average exchange rate was $486 per dollar in 2012, and ended the year at $477 per dollar. Multilateral measures also tended towards appreciating the peso, bringing the real exchange rate index to levels in the region of 88, after ending 2011 on 95.2.

Looking ahead to 2013, we expect the real exchange rate to remain relatively stable at current levels, prompting a slight depreciation in the exchange rate to close at $498 per dollar in December 2013, and local inflation slightly above relevant external inflation for this variable. Exchange rate conditions would thus continue to be stable for the new vehicle market.

4. Forecast for new vehicle sales

Following growth of 1.4% in 2012, due to the impact of external uncertainty in forecasts by main market operators, and particularly importers, sales should resume a rate of growth which is in line with the main economic and financial determining factors in 2013. We thus forecast 5.6% growth in sales of new light vehicles, to reach approximately 357,000 units (Chart 7). For 2014 and 2015, our estimates are 4.0% and 5.8%, respectively. By 2015, this would bring sales to 394,000 units, though there would still be margin for growth given the estimated number of people per car of 4.1 for that year.

Chart 7
Sales of new cars (units, % y/y change)



Source: BBVA Research

Box 1: The Chilean automotive fleet should exceed 4.8 million units by 2020

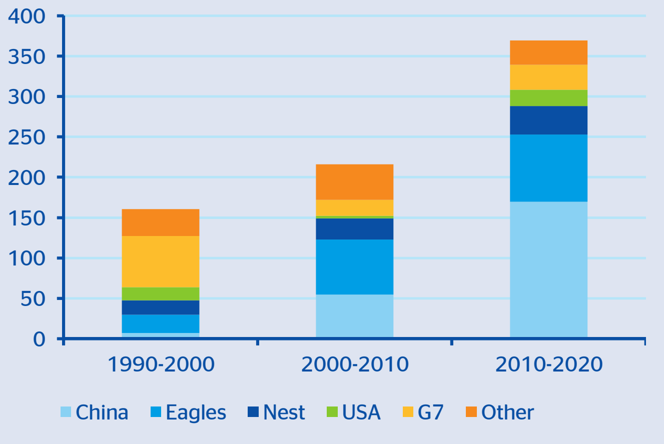
The rapid growth in the vehicle fleet is not a purely Chilean phenomenon, but is in fact evident in other emerging markets with high population density and steady economic growth. In fact, over the last decade, the vehicle fleet of EAGLE countries was increased by 1.5 times, while Chile's did so by 75% . In Asian countries, the fleet increased by 2.3 times due to the 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 fall in growth, due to the international financial crisis which began at the end of the last decade.

In this context, BBVA Research has projected the growth in the vehicle fleets of different emerging markets in coming years; these countries will play important roles in developing the vehicle sector. For that purpose, a long term model was estimated to assess changes in the number of vehicles per thousand inhabitants, in accordance with per capita income, 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 per capita income. The idea in this relationship is that the car per inhabitant ratio is very low for very low levels of per capita income; however, it takes off at medium-low income levels, and grows very rapidly so as to reach certain saturation levels with high income levels.

According to this model, strong and sustained growth will fuel vehicle demand in emerging markets (see Chart 8). 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 is expected to reach the size of Japan, while Russia and India edge closer to that level, leaving the rest of the G7 countries behind. Developed countries, on the other hand, stand close to saturation levels both in terms of per capita income and also demographically, except for the United States. Sales in these countries depend on depreciation and technological breakthroughs.

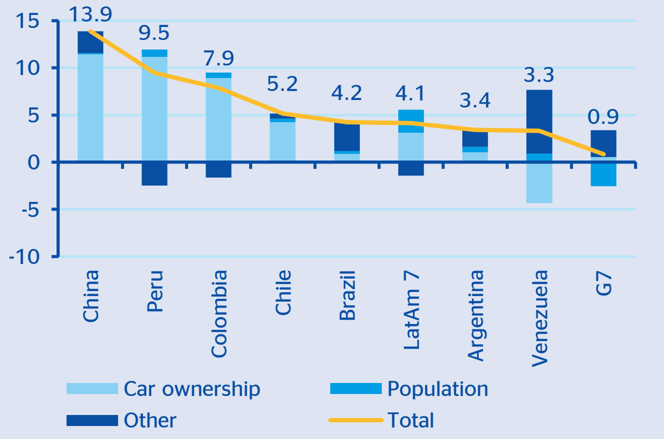
In Chile's case, expected annual growth in the vehicle fleet for this decade (2010-2020) is 5.2% (see Chart 9), growth which is lower than that expected for EAGLE countries (8%) and higher than that of the seven largest Latin American economies (4%). This growth in the automotive fleet would mean that by 2020, Chile would reach a motorization rate of 3.8 people per car, similar to Argentina's current rate.

Chart 8
Increases in world vehicle fleet, by decades (millions)



Source: BBVA Research

Chart 9
Annual growth in vehicle fleet in 2010-2020 (pp, by components)



* Above the bars shows annual growth for the 2010-2020 decade.
Source: BBVA Research

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

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