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Automobile Market Outlook

Argentina

2011
Economic Analysis

- **An exceptional 2011, with record production, sales, and foreign trade.** In a context of a strong growth and negative real rates that incentivized savings in durable goods.
- **A far-reaching automotive fleet renewal process.** Over the last two years 2.5 million cars were added (24% of the operational fleet).
- **An industry with a growing productivity.** Over the last decade, productivity grew 30% from the levels seen during the nineties.
- **The automotive parts sector will continue to show weaknesses.** These require the implementation of a more aggressive integration policy so as to avoid drastic external pressure against a backdrop of growing impediments against world trade.
- **Moderate forecasts for 2012.** The expected growth level will be around 10% year-on-year, and will be affected by higher interest rates, slower economic growth, and salary increases that we expect will be lower.

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Closing date: 11 December 2011

Exceptional growth of the sector in 2011

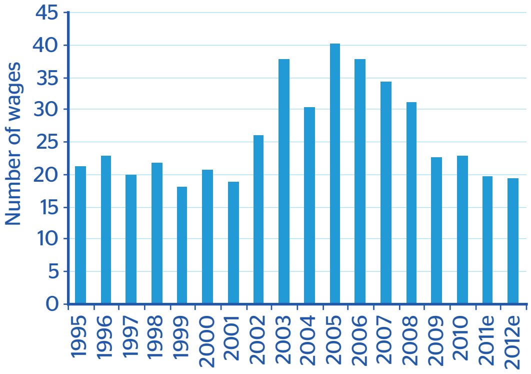
Record levels in production, internal demand, and foreign trade

The automotive industry boom in 2011 moved all variables of the sector to historic record levels. Against a backdrop of currency stability and poor performance of bank deposits, savings was channelled in considerable amounts to the purchase of durable goods, in particular cars, so the total demand of vehicles was close to 1.35 million units, or 15.8% above the levels recorded in 2010.

The coincidence of strong per capita GDP growth and the persistence of negative real interest rates with a moderate rise in vehicle prices resulted in growth of local sales to the internal market of 21.4% year-on-year, which exceeded even our optimistic forecasts for the year (836,400 units) given that figures based on the first ten months of the year indicate that a total of 847,800 units will be reached.

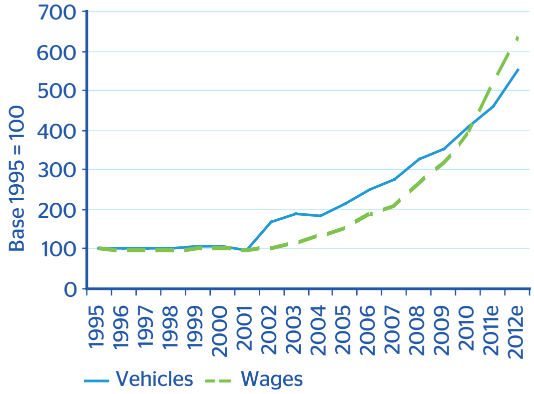
The strong increase in salaries in the formal sector of the economy (+31.9% year-on-year) greatly exceeded the increase in automobile prices, which allowed continued improvement in conditions of accessibility.

Chart 1
Access to vehicles



Source: BBVA Francés Research.

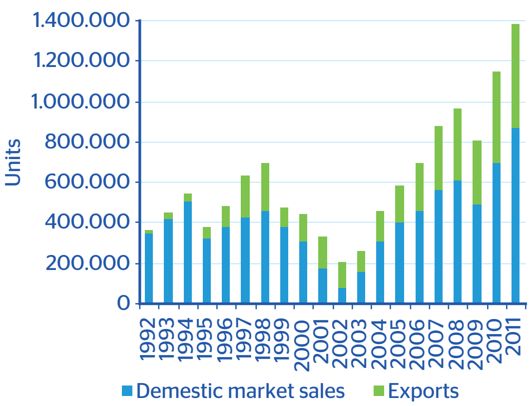
Chart 2
Evolution of Automobile Prices and Salaries



Source: BBVA Francés Research using Adefa and Indec data

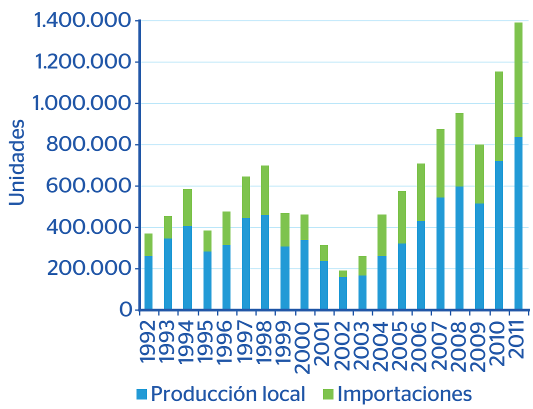
Foreign demand was helped by the growth of the Brazilian market (main destination, taking around 73% of exports) with exports estimated to total 516,300 vehicles (15.3% year-on-year).

Chart 3
Automotive demand



Source: BBVA Francés Research using Adefa data

Chart 4
Automotive supply



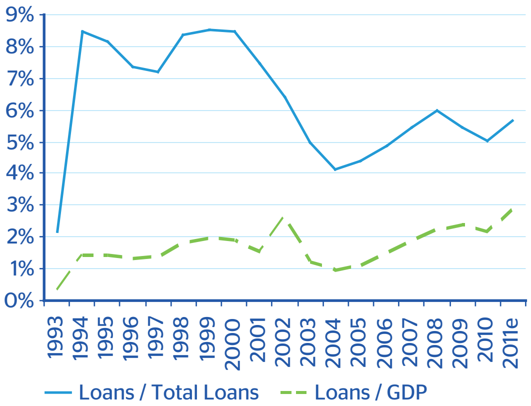
Source: BBVA Francés Research using Adefa data

Financing increased, although it continues to be limited

Collateral loans also grew significantly during 2011 (+64,9% year-on-year), exceeding including the vigorous increase in the total of credit to the private sector (+46.6% year-on-year), which produced an increase of 0.7% in their proportion of the total of loans, reaching 2.9% of current GDP (see Chart 5).

However, in spite of the strong recent expansion, financing continues to play a minor role in the purchase of vehicles in Argentina, given the high level of informal labourers (30% of the active work force) and the volatility of the economy. During the first nine months of 2011 (see Table 1) it can be seen that, although financing of the purchase of automobiles grew with respect to 2010 to 37% of the total, the vast majority of sales continued to be settled in full (63%). Given the total financed with collateral credits, increases took place in Banks and Brand Financial Entities, with a reduction of Savings Plans and other financing sources (see Table 1). Therefore, the impact of the negative real interest rates was felt on the demand for cars but not principally on the side of financing but rather due to the lack of incentive for financial savings.

Chart 5
Collateral loans



Source: BBVA Francés Research using BCRA data

Table 1
Registration and Collateral Creditors

	2010		Jan-Sep 2011	
	Units	Share %	Units	Share %
Banks	69155	10.4%	86195	12.6%
Brand financial entities	53517	8.0%	68987	10.1%
Savings Plan	88487	13.3%	81340	11.9%
Terminals	515	0.1%	405	0.1%
Dealerships	5986	0.9%	5300	0.8%
Miscellaneous	16249	2.4%	10366	1.5%
Total financed	233909	35.2%	252593	37.0%
Spot	431360	64.8%	430701	63.0%
Total registrations	665269	100.0%	683294	100.0%

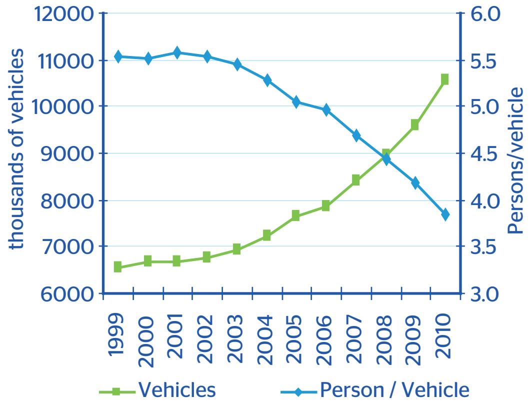
Source: BBVA Francés Research using Adefa data

The Automotive fleet was renovated and expanded

Although no figures are yet available for 2011, the sales boom will no doubt have contributed to the continued improvement in the stock of vehicles that in 2010 reached 10.5 million, corresponding to 72% of cars and 17.9% to lightweight utility vehicles. The automotive fleet had already grown sustainably in 2010, reaching 3.8 inhabitants per vehicle, the lowest figure in Latin America.

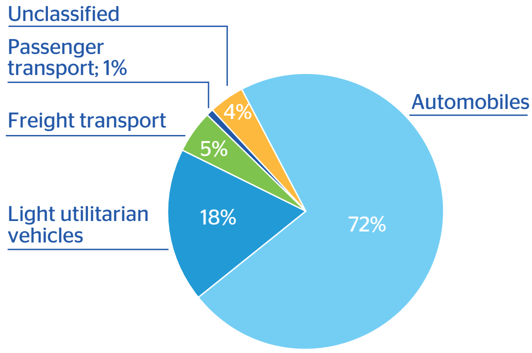
Although there is no updated information on the age of the automotive fleet (the last information is from 2008), we estimate that the incorporation over the last two years of 1.6 million vehicles (15% of the total) significantly reduced the average age.

Chart 6
Automotive Fleet Growth



Source: BBVA Francés Research

Chart 7
Vehicle fleet by category 2010



Source: BBVA Francés Research

Low- and medium-priced units continued to dominate demand

During 2010 vehicle sales reached a total of 710,485 units, a value of USD15.3 million. Within this total, car sales represented 77.6% of units, while lightweight utility vehicles reached 18.3%.

In the cars and lightweight utility vehicles sector the five leading brands continued to lead the ranking with a market share slightly above that of the previous year (71.3% compared to 70.9%).

Table 2
Sales of cars and light utility vehicles to the public by make

		2010		2009	
	Automakers	**Units**	**Share %**	**Units**	**Share %**
1	Volkswagen	125431	19,7%	102317	20,7%
2	Chevrolet	101287	15,9%	71611	14,5%
3	Renault	82356	13,0%	60879	12,3%
4	Ford	77919	12,3%	64718	13,1%
5	Fiat	65775	10,4%	49672	10,1%
6	Peugeot	56019	8,8%	45745	9,3%
7	Toyota	31024	4,9%	29117	5,9%
8	Citroën	23505	3,7%	20322	4,1%
9	Honda	20657	3,3%	15085	3,1%
10	Nissan	10017	1,6%	4071	0,8%
11	Suzuki	7353	1,2%	6775	1,4%
12	Mercedes Benz	6246	1,0%	4854	1,0%
13	Hyundai	5226	0,8%	3317	0,7%
14	Audi	3939	0,6%	2676	0,5%
15	BMW	3485	0,6%	2184	0,4%

Source: BBVA Francés Research using ACARA data

The ranking continues to be led by Volkswagen company (Gol and Suram models among the most important ones) followed by Chevrolet (Corsa and Aveo) and Renault (Sandero and Clio), although the advantage of the first over the second two has been reduced.

For their part, sales of heavyweight utility vehicles, both for cargo and passenger transport, represented 4.1% of the total of units sold during the year.

In this case the ranking by brands shows a degree of concentration slightly lower at the top of the pyramid, given that the three principal brands reduce their share from 71.3% in 2009 to 69.4% during 2010, in particular Mercedes Benz.

Table 3
Sale of heavy utility vehicles by make to public

		2010		2009	
	Automakers	**Units**	**Share %**	**Units**	**Share %**
1	Mercedes Benz	5956	34,0%	5538	41,0%
2	Ford	3220	18,4%	2561	19,0%
3	Iveco	2976	17,0%	1530	11,3%
4	Volkswagen	1708	9,8%	1218	9,0%
5	Scania	1381	7,9%	923	6,8%
6	Agrale	897	5,1%	620	4,6%
7	Volvo	392	2,2%	328	2,4%
8	Renault	381	2,2%	348	2,6%
9	Puma de Tat	308	1,8%	197	1,5%
10	Hyundai	268	1,5%	182	1,4%

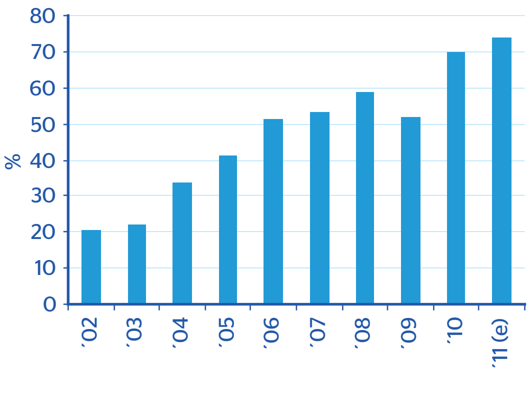
Source: BBVA Francés Research using ACARA data

Supply shows an expanding industry with growing productivity

Local production also will show a new record in 2011, with a total of over 840,000 vehicles (+12.2% year-on-year), while imports will reach 550,000 units (+28.8% year-on-year).

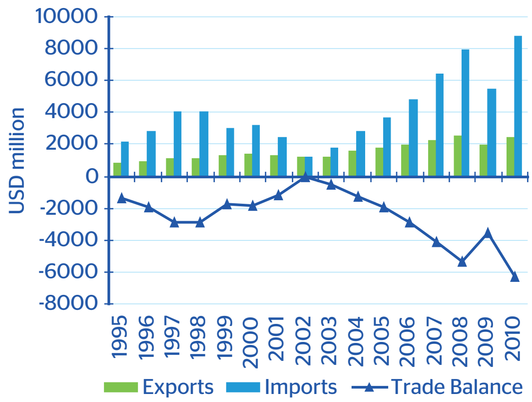
The noticeable growth in activity led to increased use of installed capacity in the industry, which we expect will average 74.2% for the year. Added work shifts at selling points as well as the launch of new models mean that the industry is at the forefront of investment announcements for the coming year.

Chart 8
Installed capacity utilization



Source: BBVA Francés Research using Indec data

Chart 9
Auto part foreign trade

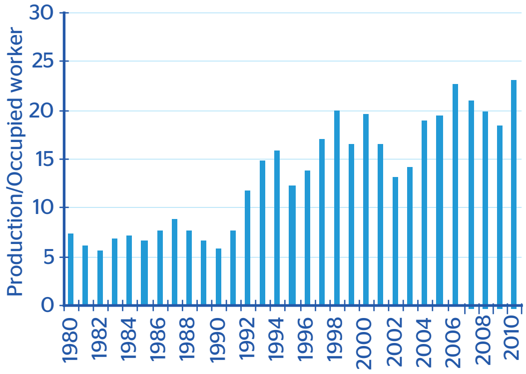


Source: BBVA Francés Research using AFAC data

In spite of restrictions imposed on costs by the significant increase of dollar salaries, the automotive industry has maintained its vigorous growth, boosted by the increase in labour force productivity resulting from strong investment and training process. It can be seen in Charts 10 and 11 that after the jump already seen during the nineties when the sector was integrated in the Mercosur agreement, a new leap forward took place over the last decade.

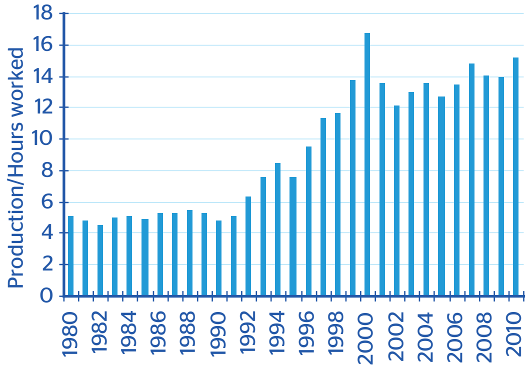
The productivity levels, both per active worker and per hour worked during the 2000 decade practically triples registrations during the eighties, while these are around 30% above the figures for the nineties.

Chart 10
Vehicles/Active worker



Source: BBVA Francés Research using Adefa dat

Chart 11
Vehicles per hours worked



ource: BBVA Francés Research using Adefa data

The automotive parts sector will continue to show weaknesses

The government aims to diminish dependency on auto parts from abroad, given the growing car parts trade deficit. For illustrative purposes, during the first quarter of 2011, USD2.3186 billion worth of parts were imported (+36% year-on-year compared to the same period of the previous year). The main source countries for parts were Brazil (45%), China (9%), and Germany (8%). Over the same period, exports of auto parts reached USD 571.3 million (barely +7.4% year-on-year) with main destinations being Brazil (63%), the US (5%), and Mexico (4%).

More vigorous progress in the integration process of national parts requires greater investments which seem unlikely in a climate of greater international and domestic uncertainty and the impact on costs of the strengthening of the real exchange rate.

Inasmuch as production levels continue to rise, the problem will continue to worsen and to represent a risk for the sector. Slowing world trade together with more scarce investments into the region will probably lead to a deepening of import duty increases to restrict imports for both of the main Mercosur partners. Against this backdrop, protectionist measures and conflicts will continue in spite of the bilateral trade agreement between Brazil and Argentina in effect until June 2013.

Moderate forecasts for 2012

There are various factors that point to more moderate growth of the automotive market for next year. On the one hand, economic activity will grow substantially less, leading to slower employment growth. On the other, the demand for collateral credit will drop as a result of the higher interest rates expected following their recovery over recent months, while disposable income from households will be affected by more moderate salary increases compared to those seen this year and by greater spending in energy and transport due to the ending of electricity, gas, and water subsidies. These factors point to a total sales growth rate lower than that seen this year, which is precisely what we are viewing in our econometric forecasts. Using our base econometric model[1], which links, on a quarterly basis, total car sales with the interest rates of collateral-backed credits, the real interest rate, GDP per capita, and the price of vehicles, we calculate that total sales in 2012 would reach 936,000, i.e. 10.4% over that expected in 2011. It is important to note that although this figure would imply a deceleration with respect to the significant growth of 2011, it still would lead to another annual car sales record.

In any case, in the context of a general slowing of economic activity in Argentina and lesser incentives for private consumptions, the automotive sector will maintain greater than average growth and continue to lead industrial growth.

1: This is a linear single-equation model etimated by ordinary least squares. It relates the first difference of the logarithm of total car sales with the first lag in the nominal interest rate of the car loans and the real interest rate, the rate of growth of per capita output ad the quarterly change in the price of cars. The model was estimated using quarterly data from between 1Q 1993 and 3Q 2011. All the variables are statistically significant to within 5%, except the real interest rate, which is significant to 10% (its p-value is 0.069).

DISCLAIMER

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