BBVA | RESEARCH

Automobile Market Outlook

Colombia

2011
Economic Analysis

- **Unprecedented year for vehicle sales in Colombia, with** over 327,000 units sold in 2011 thanks to the high level of household confidence and willingness to buy, reduced prices and low interest rates.
- **Trade treaties and the strength of the Colombian peso have increased the supply of imported cars on the local market** to 59% of total cars sold.
- **We expect vehicle sales to remain at around 360,000 units in 2012,** supported by structural factors such as the current low level of penetration in the sector, the expected positive macroeconomic and labor conditions and the strength of the local currency.

Index

Closing date: November 30, 2011

1. Introduction

The performance of the automobile sector in 2011 has been outstanding in terms of sales, production and exports, and in line with the forecasts we presented in our last Automobile Outlook Colombia. Sales through October were up by 36% y/y. Vehicle production at the close of the third quarter was up 23% y/y and imports 50.0% y/y. Exports (FOB) in dollars were up by 22.2% y/y through September, with a significant contribution from sales in the Ecuador market (59% of the total).

The value vehicles sold in the domestic market to June 2011 increased by 35.4% y/y in nominal terms and accounted for 1.8% of GDP. Prices were stable in the main market brands, so most of this increase can be put down to volume. Production has still not recovered to its highs of 2007.

The outlook for the sector is optimistic, as we can expect the average income of the population to grow over the coming years; combined with the low vehicle penetration rate, this gives room for the cycle of expansion in the automobile market to continue. However, the rate of growth in vehicle sales is expected to slow over the coming years.

Table 1
Key indicators for the Colombian automobile market

Key indicators	
Population (million, 2011)	46,0
GDP per capita (USD, 2011)	7.000
Size of territory (thousands of square km)	1.141,7
Road network (thousands of km, 2010)	203,6
Vehicles per 100 inhabitants (2010)	7,4
Age of the vehicle fleet (years, 2010)	15,6
Sales of new cars (thousands of units, 2011)*	327
Average car price (COP million, 2011)	33,0
New vehicle finance (% of new car sales)	60,0

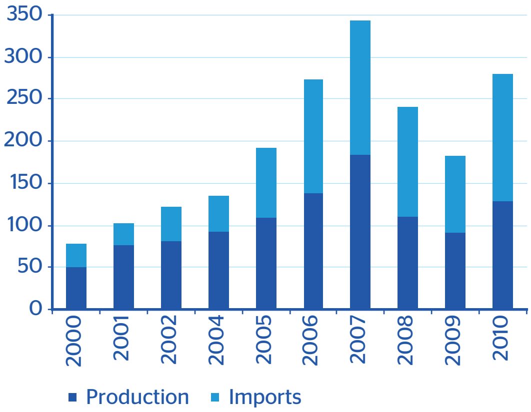
* Projection.
Source: ANDI; Bank of the Republic, DANE, DNP, Econometría Ltda, UNCRD/IDB FTS survey 2011, FENALCO, Ministry of Transport, CEPAL and BBVA Research

2. Recent performance of the automobile sector

Domestic production of vehicles up, but imports are gaining ground in the market

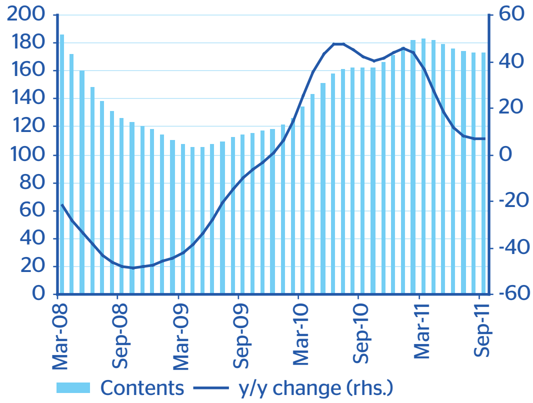
The supply of vehicles has been increasing, as both production and imports have risen. Data to September show that so far this year vehicle production was up 23% y/y. As a result, domestic supply at the close of this year should be around 150,000 units. The sector's buoyancy has also been linked to higher imports. Between 2000 and 2010 imports increased fivefold, and consolidated the trend for a greater proportion of imported vehicles in the local market. While in 2000 imports accounted for 35% of supply, by 2010 they were up to 54% and currently stand at 59%. This is also reflected in the 70% y/y growth of vehicle imports in dollars (CIF) in 2011 through September.

Chart 1
Total vehicle market (annual, thousands of units)



Source: ANDI and BBVA Research

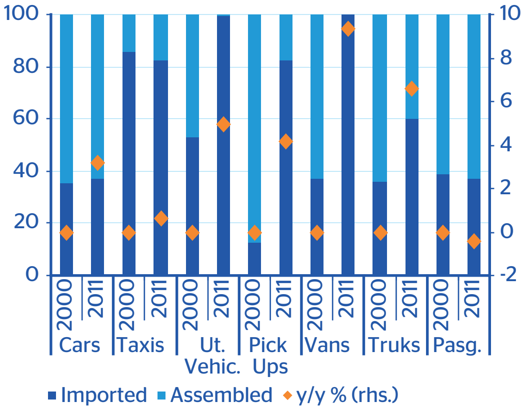
Chart 2
Index of industrial production of vehicles (seasonally adjusted series)



Source: DANE and BBVA Research

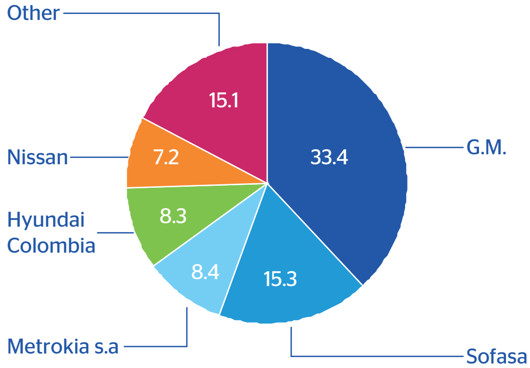
The positive supply figures have been passed on to wholesale sales (see Chart 3), which grew by 39% y/y in the first three months of 2011, boosted mainly by sales of private cars (57.1% of the total), pick-ups (9.5%) and utility vehicles (16.2%). The main wholesale distributors did not vary their market share, although those that market Chinese makes of cars have continued to increase their share steadily, in line with other countries in the region (see Chart 4).

Chart 3
Wholesale sales (share and y/y % growth)



Source: Econometría Ltda and BBVA Research

Chart 4
Wholesale sales by company (% share)



Source: Econometría Ltda and BBVA Research

Rapid growth in vehicle sales

Domestic and foreign sales have performed very positively so far this year, with those in the domestic market above the high levels of 2007 and 2010. In 2011 through October the domestic market accumulated sales of 268,000 new cars, up 36% y/y. The strongest performance was in vehicles for commercial use (vans and trucks), which have accounted for 10.4% of sales in 2011 and were up 82% y/y.

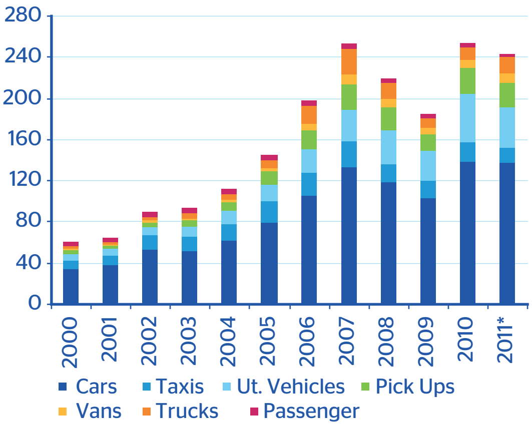
Sales for the whole year should be around 327,000 units, slightly above the forecast of BBVA Research at the end of 2010. The figure supports our optimism when we estimated more than 306,000 units, well above the forecasts of the consensus of analysts. .

The increased demand for commercial vehicles is related to the decision of many companies to consolidate their freight businesses, leading to an increase in demand for medium and small trucks. At the same time, the oil industry has considerably increased demand for fuel transport services, particularly for fuel extracted from small wells in isolated terrain that do not justify the construction of pipelines.

Domestic sales of private vehicles increased 46% y/y in 2011 through September, while sales of utility vehicles and pick-ups was up 28% y/y and 37% y/y respectively (see Chart 5). This is due to the high levels of household confidence, which imply a strong likelihood to buy vehicles. This confidence coincides with a reduction in the rate of urban unemployment to around 10% and the growth of salaried employment up to a rate of 6.7% y/y in September (see Chart 6).

Purchases of taxis have fallen from 13.8% of the total in 2000 to only 5.9% now. In part this is the result of the policies in many cities of not allowing the entry of new vehicles without the scrapping of the previous one, as well as the lack of approval for more licenses. The reverse is the case with the sale of utility vehicles and pick-ups. While in 2000 they represented 8.7% and 5.8% of the total, respectively, today they have a share of 16.5% and 9.6%.

Chart 5
Retail vehicle sales (thousands of units)



*This year through September
Source: Econometría Ltda and BBVA Research

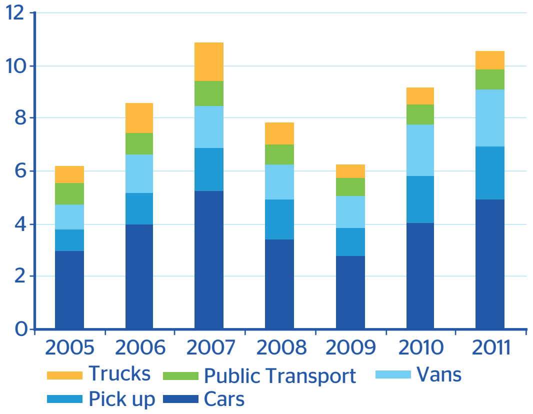
Chart 6
Unemployment and employment (%)

Source: DANE and BBVA Research

The value of sales on the domestic market in 2010 was current COP 9.2 billion, with a nominal growth of 46% y/y (see Chart 7). This is due to the 54% y/y increase in the value of sales of private vehicles, which offset the fall of 2.1% y/y in public transport vehicles. However, sales are still not back to their high of 2007, when they accounted for 2.5% of GDP. Nevertheless, the recent rising trend in sales (from 1.2% of GDP in 2009 to 1.8% of GDP now) suggests a new high in the medium term.

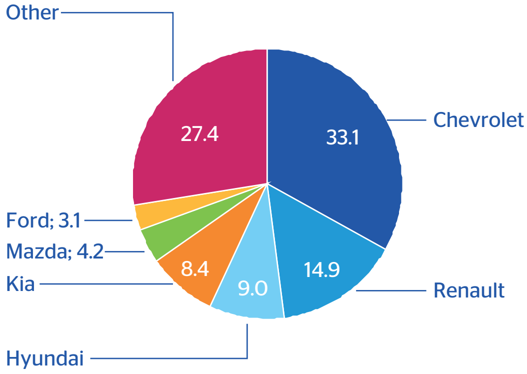
The biggest-selling makes are Chevrolet (33% of the market total), Renault (15%), Hyundai (9%) and KIA (8%). KIA sales have soared from only 3% in 2006, while the market leader Chevrolet has lost four points of its share (see Chart 8). Imported vehicles are gaining market share in sales, as they are in available supply.

Chart 7
Value of sales in the automobile sector (COP trillion)



* Accumulated figure for the last four quarters to June 2011.
Source: DANE and BBVA Research

Chart 8
Retail sales by make (% share)



Source: Econometría Ltda and BBVA Research

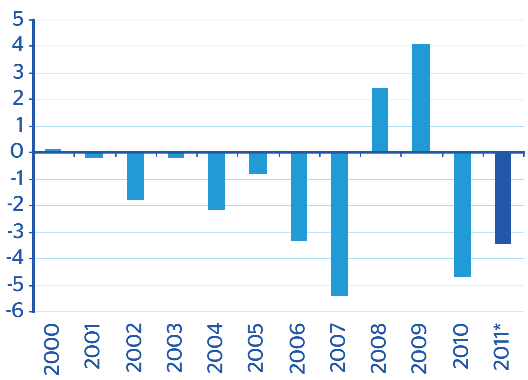
Vehicle exports are recovering, although they are still far from the highs of 2007 (see Chart 9). In 2010 and this year through September the FOB value of exports was up 22% y/y. In terms of volume, 70,600 vehicles were sold. This compares with the figure for 2009, when only 5,000 were sold, and the recovery in 2010 to 12,000. Sales to Ecuador account for 59% of the accumulated value through September 2011, although they have not managed to replace the Venezuelan market, which in 2007 totaled 6.1 times the current value sold to Ecuador.

By comparing wholesale and retail purchases of cars, it is clear that there was a destocking of inventories of around 8,000 in 2010 and 2011. Of this figure, around 7,000 were private and commercial freight vehicles (see Chart 10). The only types of vehicles with a slight accumulation of inventories are taxis, due to lower sales.

Chart 9
Vehicle exports* (USD million, FOB)

* Includes the total of tariff heading 87.
Source: DANE and BBVA Research

Chart 10
Dealer inventories* (thousands of vehicles)



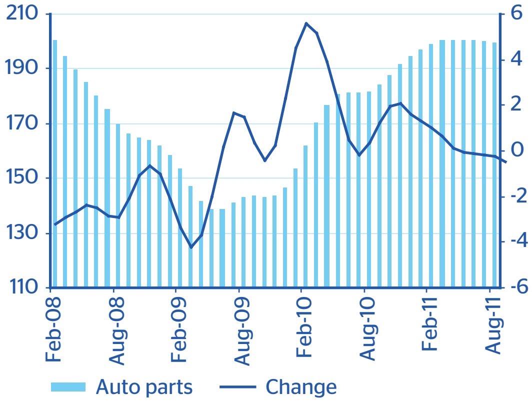
* Difference between wholesale and retail vehicle sales. This year through October.
Source: Econometría Ltda and BBVA Research

Auto parts markets respond to a more dynamic vehicle sector

In 2010 sales of auto parts in the domestic market reached USD 4,400 million. So far this year through September they have grown by 12% y/y. Imports last year amounted to USD 2,984 million (up 21.4% y/y), with the countries of origin being (in descending order) the United States, China, Japan, India and Brazil. The increased domestic demand is a result of the greater number of vehicles on the road and the peak in demand for repair services during the period of rains (Acolfa, 2011).

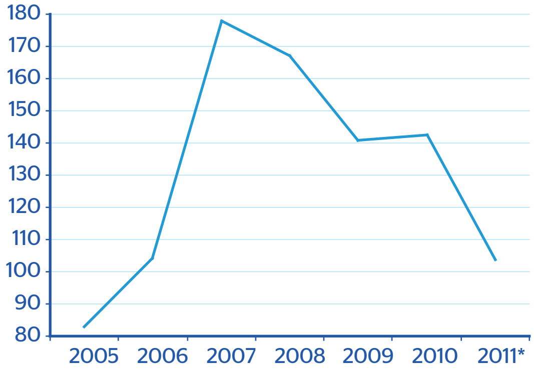
Vehicle assemblers and importers are the main importers of spare parts and components. GM buys 14.7% of the total, Sofasa 4.2%, CCA 2.9% and the other companies in the sector the remaining 78%. This shows the huge fragmentation that has been a feature of the auto parts segment. Exports of auto parts in 2010 amounted to USD 140 million (up 7.0% y/y), while between January and September 2011 they amounted to USD 100 million (down 6.6% y/y, see Chart 12).

Chart 11
Production of auto parts (seasonally adjusted index)



Source: DANE and BBVA Research

Chart 12
Exports of auto parts (USD million)



* Accumulated this year through September.
Source: DANE and BBVA Research

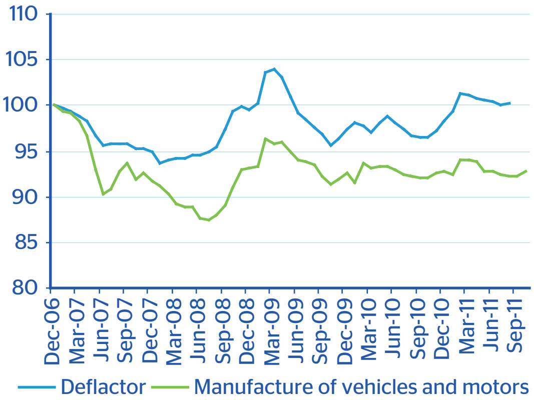
Stability in costs and prices in the sector boosts demand

Between December 2006 and October 2011 the index of manufacturing prices in the automobile sector fell by 7.2%. The biggest fall was in imported vehicle prices, which fell by 18.7%, while prices of domestically assembled vehicles increased 3.4%. Using the deflator of industrial output in the sector, based on the manufacturing sample, we see that current prices in August 2011 were only 0.8% higher than in May 2004, when the cyclical behavior of prices began to show medium-term stability (see Chart 13).

The average purchase price of domestic vehicles has been falling steadily, but stable and high for imported cars (see Chart 14). This shows the capacity of national consumers to access an increasingly high-range and higher-priced imported cars, while domestic production is specializing in the manufacture of low-range cars that have reduced their prices in recent years.

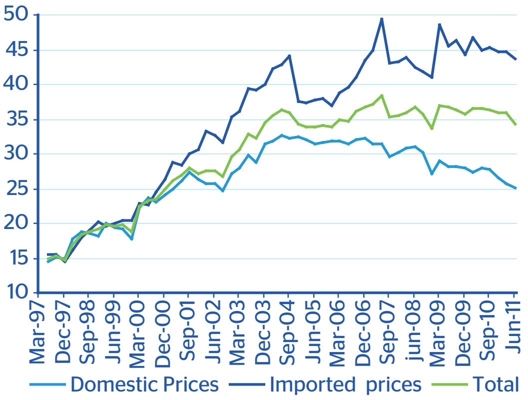
The ratio between the average price of cars and average household disposable income has fallen, despite the fact that the average price has been pushed up by the greater proportion of high-range vehicles. While in 2003 the purchase of an average car in Colombia cost 6.4 times an individual's disposable income for the year, currently this figure is around 3.3 times.

Chart 13
PPI and implied deflator in the monthly manufacturing sample for vehicles (Dec 06 = 100)



Source: DANE and BBVA Research

Chart 14
Average sale price of vehicles (COP million)



Source: DANE and BBVA Research

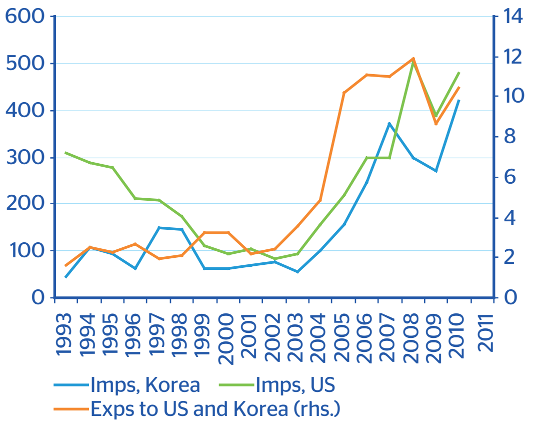
3. Trade treaties and the tariff regime

Free-trade treaties with the United States and Korea will increase competition in the automobile sector

Colombia has accelerated its openness to trade with the conclusion of trade agreements with various developed countries, including the United States. It is currently negotiating agreements with South Korea, Panama and Turkey. The United States is Colombia's main trading partner and a net exporter of vehicles and parts, of which Colombia imports an annual USD 477 million (FOB). Exports to the U.S. are an annual USD 10 million (FOB) (see Chart 15). Korea is also a major vehicle manufacturer, from which Colombia imports USD 419 million (FOB) and to which it exports USD 0.1 million (FOB) (mainly auto parts).

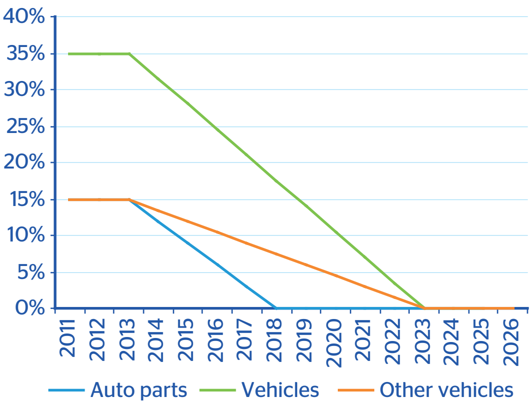
Although the transition periods of tariff reductions in the treaties are extensive, both for vehicles and their parts, in the medium term we can expect a reduction in the price of new and used vehicles. This will mean a reduction in the cost of freight transport and an increase in the variety of vehicles available to local consumers (see Chart 16).

Chart 15
Automotive industry exports and i mports with the U.S. and Korea (FOB, USD million, including vehicles and auto parts)



Source: Mincomercio, DANE and BBVA Research

Chart 16
Schedule for import tariff reductions on vehicles and auto parts under the FTA with the U.S.



Source: Mincomercio and BBVA Research

The schedule for tariff reductions under the FTA with the U.S. sets a period of 10 years for the reductions on most vehicles, except for 4x4 with engines of more than 3,000 cm3 and tractors, which will have tariffs lifted immediately. Most vehicles have a tariff of 35%, and this will be reduced by 3.5% per year to a rate of 0% in 2023.

The only vehicles with a tariff of less than 35% are trucks of under 5 tons and transport vehicles for more than 16 passengers, which are subject to a tariff of 15%. This will be removed over 10 years ("other vehicles" in Chart 16). This transition period will allow the automobile sector to reorganize its production structure in order to face the increased competition from the United States and define the lines of production which will continue to be competitive when tariffs are eliminated.

Auto parts have a tariff of 15%, which will be eliminated over five years under the treaty. This quicker reduction will enable automobile manufacturers to reduce their production costs and make it easier for them to deal with foreign competition during the following ten years of falling tariffs.

4. Outlook for the sector

Colombia is not renewing its vehicle fleet as quickly as in other countries. In 2010 it had a rate of sales of 5.6 new vehicles per 1,000 inhabitants, while the average in Latin America was 11.6 (Brazil, 18.4; Chile, 16.9 and Argentina, 15.5). In developing countries the figure was over 30. This low level of vehicle penetration in Colombia means that there is significant room for increasing vehicle sales over the coming years.

Demographic forecasts support this outlook. The percentage of the population of an age to work will increase from 64.9% in 2011 to 66.1% in 2010. At the same time, the recent improvements in the labor market and public policies focused on the young are expected to increase the rate of labor activity of these age groups. This will be a decisive factor for the forecasts of vehicle sales, particularly with respect to the young people who acquire a vehicle for the first time.

Colombia is one of the countries with the highest expected rate of growth among the urban population. Between 2010 and 2015 the urban population will grow at an annual rate of 1.6%, above the average of 1.4% in Latin America as a whole. However, the contribution of urbanization to the purchase of cars will depend on how transport infrastructure is organized in large cities.

New demands in the development of the mining and energy sector and the logistical needs of the free-trade treaties could provide incentives for the acquisition of new heavy goods vehicles, as 72% of all transport is by land. This type of transport also has the oldest vehicle fleet, as we explained in the previous Automobile Outlook. In fact, in Colombia the renewal of private vehicles should be faster than in other countries in the region that allow trade in used vehicles.

Finally, the renewal of the public transport and freight vehicle fleets would be speeded up if a policy for scrapping vehicles emerged from the deliberations of the Higher Council of Economic and Social Policy (Conpes). The aim of this policy would be to condition the entry of new vehicles on the prior scrapping of a certain number of old vehicles. For now, this demand has not been incorporated into national law (except for taxis in some cities), although the current National Development Plan is trying to create a Renewal Fund to allow transporters to finance the purchase of new vehicles. The Ministry of Transport is in the process of regulating this incentive.

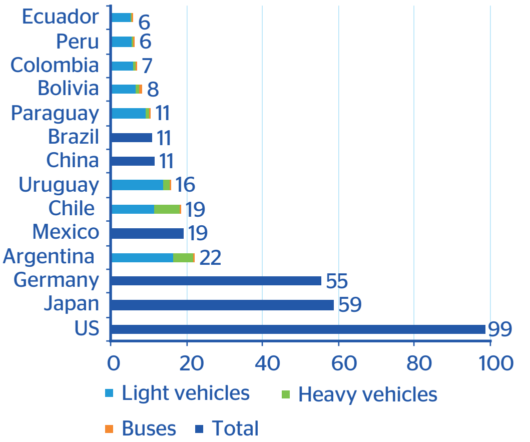
Overall, BBVA Research maintains its forecast for vehicle sales for 2012 at around 360,000 units, which would give a growth figure of around 10% y/y compared with the 2011 figure.

The motorization rate in Colombia is low, compared with other countries in the region and with industrialized countries (see Chart 17). This reflects the low levels of saturation of the automobile market. In addition, although there has been a significant recent increase in the number of vehicles per 100 inhabitants, penetration is still not at the levels of other economies with a similar level of development.

Despite this, the elasticity of the growth of the automobile fleet to the rate of GDP expansion has been at 1.2% over the last decade. In general, countries that are just starting their process of motorization have elasticities of under 1, which is related to accelerated rates of growth in vehicle numbers. Colombia can therefore be expected to have moderate rates of growth in vehicle numbers in the near future.

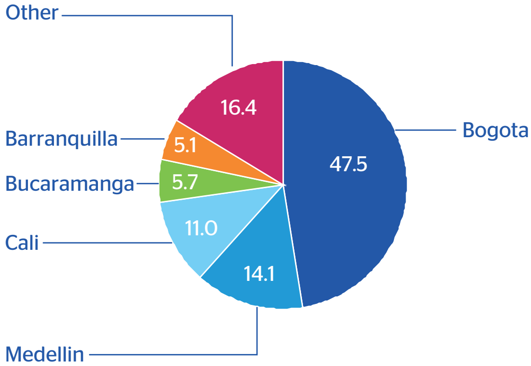
At the same time, the state of roads in the country and the main cities could become an obstacle for increasing the market, particularly given that 48% of vehicle sales in the last decade were concentrated in a single city (Bogota; see Chart 18). Moreover, the introduction of mass transport systems could lead to a change in the composition of the market for vehicles in favor of public transport vehicles, thus limiting the growth in the private fleet.

Chart 17
Motorization rate by type of vehicle (vehicles per 100 inhabitants, 2010)



Source: MinTransporte, CEPAL, local sources and BBVA Research

Chart 18
Vehicle sales by city (average 2006-2011)



Source: Econometría Ltda and BBVA Research

The installed capacity of assemblers in the country still gives ample room for growth. According to ANDI, the eight companies in the sector could assemble 320,000 vehicles per year using two daily production shifts. This compares with an annual expected production of 150,000 units in 2011. The figure corresponds to a current value of production that is under the all-time highs of 2007, when production in the sector amounted to COP 7,000 billion (1.6% of GDP). In 2009 the external crisis and the drop in exports to Venezuela led to a fall in production to COP 3,700 billion (0.7% of GDP).

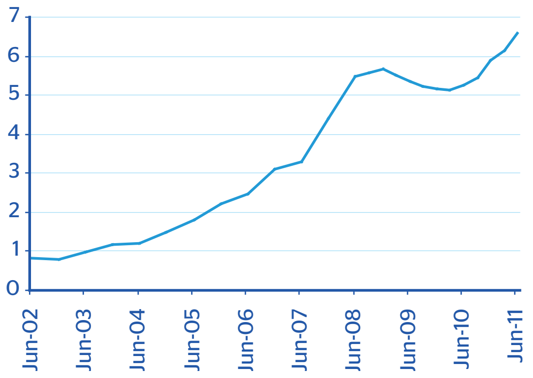
Expectations in the auto parts sector will depend on the degree to which it can take advantage of the free trade treaties, to ensure that foreign trade can support the expansion of domestic demand. It should be noted in this respect that companies in the sector have made progress in international certification of management and product manufacturing standards. These quality guarantees will make it easier for them to enter the global market and take advantage of agreements such as those with the Confederation of the Latin Auto Parts Industry through trade with Venezuela, Ecuador, Argentina and Brazil.

The chassis industry bases its potential growth on the consolidation of mass transport systems and greater supplies of trucks for freight transport as a result of increased trade within the country. In addition, future investments in the mining, energy and manufacturing sector will have an effect on the modernization of the vehicle fleet.

5. Finance

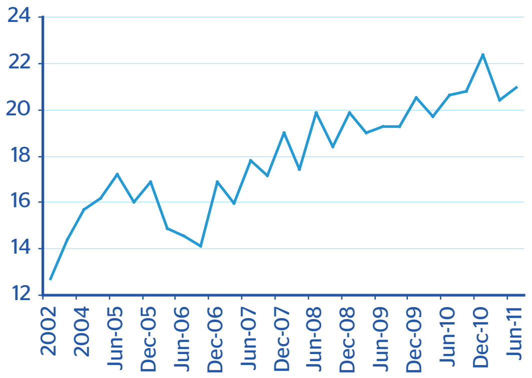
The outstanding balance of loans for vehicles amounted to COP 6,600 billion in June (up 25.1% y/y). This is up on the level at the end of 2008 (COP 5,700 billion). Currently, the figure amounts to 12% of the total consumer portfolio and 1.2% of GDP. The average amount of an auto loan in June was COP 21 million, 65% up on the figure in mid-2002 (see Charts 19 and 20).

Chart 19
Automobile portfolio (COP trillion)



Source: ANDI and BBVA Research

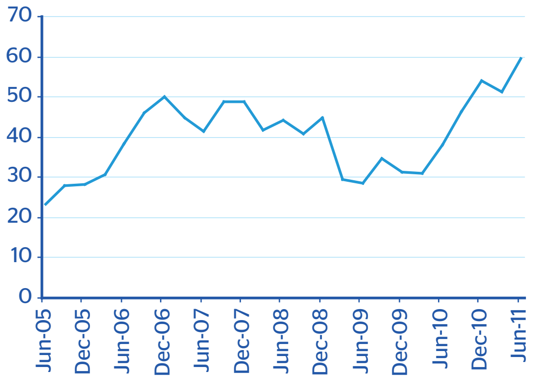
Chart 20
Average auto loan (COP million)



Source: DANE and BBVA Research

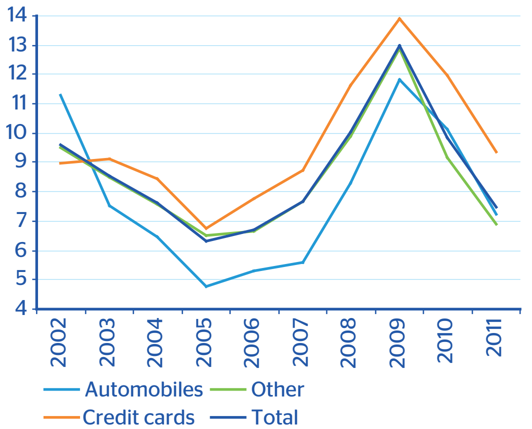
The financial system finances 60% of car sales. This figure could be higher if we take into account that some purchases are for business or through leasing agreements, which are not identified in the aggregate commercial lending figures. The banks with the biggest market share in this segment are Bancolombia (24%), Banco Davivienda (17%), Banco de Occidente (16%), Banco Finandina (11%), Banco de Bogotá (10%), Banco Pichincha (5%) and BBVA Colombia (5%). The ratio of the risk portfolio to the gross automobile portfolio is 7%, under its level of 12% in 2009, although slightly above the minimum of 2005 (see Charts 21 and 22).

Chart 21
Number of vehicle loans (thousands, accumulated quarterly figure)



Source: ANDI and BBVA Research

Chart 22
Consumer portfolio quality (Risk portfolio/gross portfolio, %)



Source: DANE and BBVA Research

Analysis by the dates of loan issues (vintages) confirms the good quality of the automobile portfolio. Loans granted in December 2010 have deteriorated much less than those of the worst vintage (June 2007) and are below the average level of deterioration of all loans issued since 2008. If this trend continues, and the recent improvements in the labor market are consolidated, the quality of car loans will continue to increase steadily.

Prospects for the financing of vehicle purchases are positive. Interest rates will remain under the neutral level until mid-2012 and additional improvements are expected in the level and quality of employment. These factors will provide incentives for increased household indebtedness in a context of high GDP and GDP per capita growth.

At the same time, there are new potential customers for the financial system: young people who have recently begun professional careers and are linked to the labor market; and the new middle classes with an income above the threshold necessary to access a vehicle. In these cases, the financial system will have a crucial role to play in financing purchases, as generally these customers have no accumulated capital.

Finally, the increase in the number of commercial vehicles for internal transport and to satisfy the expected growth in foreign trade should significantly increase demand for modern financial services such as automobile leasing.

6. Conclusion

BBVA Research expects sales of close to 360,000 units in 2012. For the following years the rate of growth of sales is expected to moderate to under 10% y/y as an annual average until 2015. Imports will continue to gain market share in domestic sales of vehicles, due to the additional boost from the free-trade agreement with the United States and the possible conclusion of an agreement with South Korea. At the same time, the slight recovery of exports and greater domestic demand will lead to an increase in domestic production of vehicles to levels of close to 200,000 units over the next three to four years.

This process of expansion will bring with it increased activity in the auto parts and bank finance sectors. In the case of auto parts, local industry has significant competitive advantages for a move into the foreign market and to cover the bigger local demand for repair services. In the case of finance, demand for loans will continue to grow as interest rates remain low and formal employment levels increase.

DISCLAIMER

This report has been produced by Colombia Unit:

Chief Economist
Juana Téllez
juana.tellez@bbva.com

María Paola Figueroa
mariapaola.figueroa@bbva.com

Mauricio Hernández
mauricio.hernandez@bbva.com

Maria Claudia Llanes
maria.llanes@bbva.com

Julio César Suárez
julio.suarezl@bbva.com

Interns:

Jane Krupskaia García
jane.garcial@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country Emerging Markets Analysis
Álvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

China

India
Sumedh Deorukhkar
deorukhkar@grupobbva.com

Latam Coordination
Joaquín Vial
jvial@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Alejandro Puente
apuente@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Mexico
Adolfo Albo
a.albo@bbva.bancomer.com

Macroeconomic Analysis Mexico
Julián Cubero
juan.cubero@bbva.bancomer.com

Developed Economies:
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

Financial Systems & Regulation:
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Pensions
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Global Areas:

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz@bbva.com

Innovation & Processes
Clara Barrabés
clara.barrabes@bbva.com

Market & Client Strategy:
Antonio Pulido
ant.pulido@grupobbva.com

Equity Global
Ana Munera
ana.munera@grupobbva.com

Global Credit
Javier Serna
Javier.Serna@bbvauk.com

Global Interest Rates, FX and Commodities
Luis Enrique Rodríguez
luisen.rodriguez@grupobbva.com

Contact details

BBVA Research Colombia
Carrera 9 #72-21, 10th floor
Bogotá, Colombia
Tel: 3471600 ext 1448
E-mail: researchcolombia@bbva.com.co

Colombia Outlook is available in Spanish