BBVA Research

Uruguay

Automobile Market Outlook

April 2011

Economic Analysis

- The number of people per car in Uruguay is among the lowest in the region, as the vehicle fleet has not yet fully recovered from the crisis of 2002.
- Sales posted a record growth in 2010, led by cars and light utility vehicles. The market leader was Chevrolet (28.7% of the market).
- The local industry is dominated by three carmakers, most of whose production is destined to the bigger Mercosur partners, while 95% of domestic demand is supplied by imports.
- Prospects are promising in the medium term given the outlook for strong economic growth and exchange-rate stability, and sales would be above 52,000 units in 2012.
- The low level of bank financing for car purchase is the result of several factors, including problems of access due to the relatively high price of vehicles and the elevated level of informality in the labor market.

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Closing date: 28 March 2011

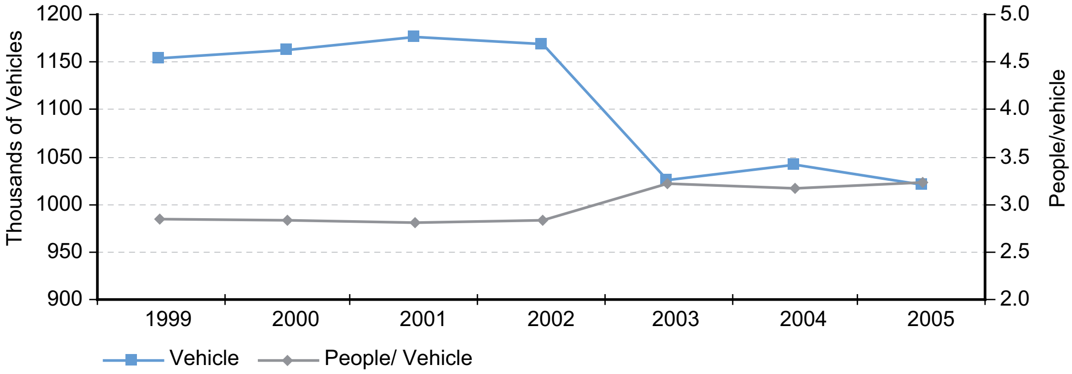
1. Positive indicators of motorization following the crisis of 2002

Although it is one of the smallest countries in South America in terms of area and population, Uruguay has one of the highest per capita incomes in the region (USD 12,400 in 2010).

The country has a mainland area of 176,215 km^2 and an estimated population for 2010 of 3,356,584, giving a population density of 19.0 people per km^2. Its road network in 2009 amounted to 8,838 km, and investment in its infrastructure stood at UYU 7550 million (USD 372 million at the then exchange rate), pressured by the increase in national and regional transport.

The number of people per vehicle (including motorcycles and mopeds) in 2005 was 3.2, clearly better than the regional average. However, these figures are relative, as information is only available until 2005, so the values are still affected by the major economic crisis in 2002. Moreover, the fall in the number of vehicles on the roads may reflect not so much a disposal of physical capital, which is unlikely, but a methodological change in the records, as older vehicles were deregistered.

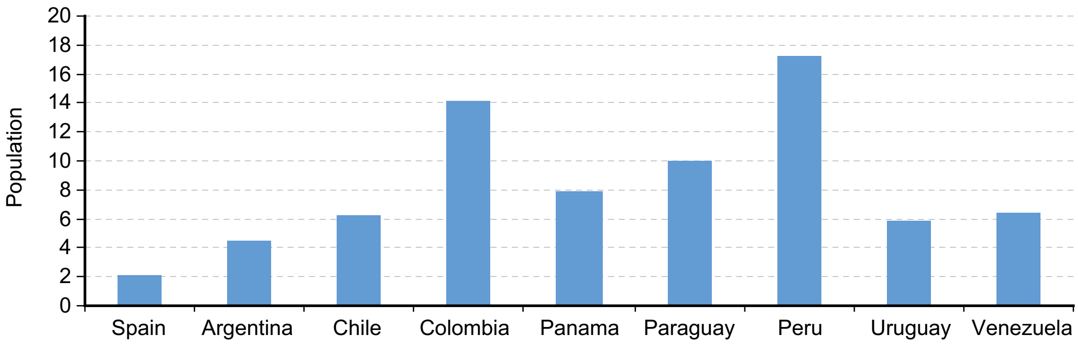
Chart 1
Vehicle Fleet Evolution



Source: BBVA Research

Looking only at cars, Uruguay also performed well at the regional level, with 5.9 people per car, very close to Argentina, the country with the lowest ratio in the region (see Chart 2).

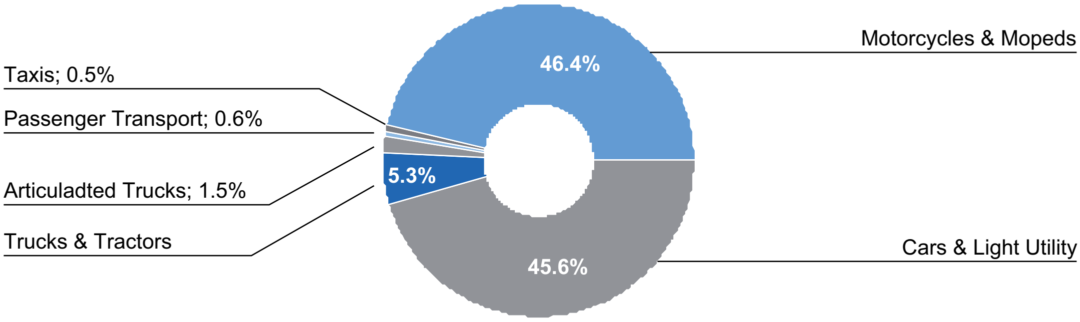
Chart 2
People per Vehicle



Source: BBVA Research

Motorcycles and mopeds represented in 2005 46.4% of the motor vehicle fleet in Uruguay (Chart 3), with cars next in order of importance at 45.6%.

Chart 3
Vehicle Fleet by Category



Source: DNT

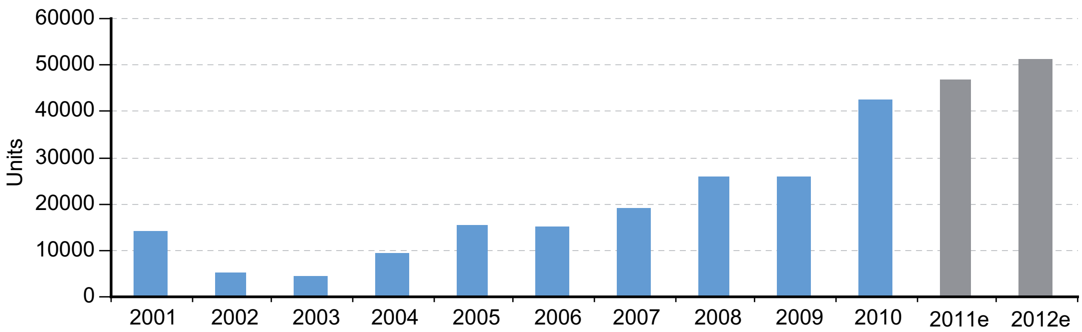
Although no information is available on the overall age of the vehicles on the road, the new car sales in the last five years barely represent 23.6% of the total vehicles. The figure increases to 32.5% taking into account the last 10 years, thus revealing the overall age of the fleet.

2. Car sales will continue to grow, but at a slower pace

Last year sales of new vehicles amounted to 43,710 units at a total of USD 960 million, with the average price per unit at around USD 22,000.

According to information from the Uruguayan Vehicle Trade Association (ACAU), of the total sold 40,664 units were cars and light utility vehicles (93.0% of the total), 2,795 trucks (6.4%) and 251 buses (0.6%).

Chart 4
Automobile Sales



Source: ACAU

Chart 4 shows how 2010 saw a swift increase in the pace of growth of total vehicle sales to 64.3% y/y (the average rate of growth in the five previous years was 22.5% y/y). This positive performance was linked to the strong growth in the Uruguayan economy, leading to significant expansion in the levels of consumption in a context of a rising exchange rate. There was also a rise in the levels of financing, with stable interest rates and improved conditions of accessibility by the population with respect to vehicle prices.

However, even in the context of rapid economic growth in Uruguay and exchange-rate stability, it is unlikely that demand will continue to expand at rates as high as in 2010. We estimate that vehicle sales will rise by an annual 9.5% over the next two years, so the number of units sold in 2012 would be over 52,000 units.

3. Chevrolet and Volkswagen account for around 40% of sales

The breakdown by automaker shows that in the cars and utility vehicles category, the light Chevrolet and Volkswagen vehicles head the ranking with a share of 28.7% and 12.8% respectively.

Table 1
Sale of Cars and Light Utility Vehicles to the Public by Make

		2010		2009	
	Automakers	Units	Share	Units	Share
1	CHEVROLET	11657	28.7%	6071	24.1%
2	VOLKSWAGEN	5192	12.8%	3106	12.3%
3	FIAT	3755	9.2%	1501	6.0%
4	NISSAN	2135	5.3%	1103	4.4%
5	PEUGEOT	1891	4.7%	1697	6.7%
6	RENAULT	1632	4.0%	859	3.4%
7	FORD	1694	4.2%	1212	4.8%
8	TOYOTA	1560	3.8%	1005	4.0%
9	HYUNDAI	1366	3.4%	770	3.1%
10	SUZUKI	941	2.3%	846	3.4%
11	CITROEN	1009	2.5%	702	2.8%
12	GWM	858	2.1%	434	1.7%
13	DFM	698	1.7%	398	1.6%
14	EFFA	671	1.7%	719	2.9%
15	BYD	577	1.4%	179	0.7%

Source: BBVA Research using ACAU data

In terms of sales of heavy vehicles (trucks and buses), the ranking is headed by Volkswagen at 23.2%, followed by JMC with 15.7% and JAC with 11.5%.

Table 2
Sale of Heavy Utility Vehicles by Make to Public

		2010		2009	
	Automakers	Units	Share	Units	Share
1	VOLKSWAGEN	707	23.2%	436	19.6%
2	JMC	479	15.7%	322	14.5%
3	JAC	350	11.5%	135	6.1%
4	HYUNDAI	298	9.8%	140	6.3%
5	FOTON	218	7.2%	162	7.3%
6	SCANIA	219	7.2%	140	6.3%
7	MERCEDES BENZ	197	6.5%	345	15.5%
8	AEOLUS	122	4.0%	154	6.9%
9	VOLVO	119	3.9%	37	1.7%
10	IVECO	102	3.3%	62	2.8%

Source: BBVA Research using ACAU data

4. Increase in the trade deficit of the automobile sector

Most demand for vehicles in the country is met by imports, although in recent years there has been an increase in domestic production. The same is true for assembly companies, one dedicated to the assembly of light vehicles, the second one to trucks and the third to vehicle armoring. All of them also export.

If we analyze foreign trade in vehicles and spare parts in 2010, we can se that the trend in exports was clearly expansive (see Chart 3) but imports grew even more boosted by strong domestic demand. Thus the negative balance increased to USD 573.3 million. The main destinations of Uruguayan sales are its biggest Mercosur partners, which account for 85% of the total: Argentina (75%) and Brazil (10%). This is the result of the advantages generated by the common market, which have allowed Uruguay to export with a tariff of 20%, below those vehicles from outside the zone with fixed quotas. This implies a potential vulnerability to regional economic cycles, in particular that of Argentina.

Table 3

Foreign trade in Transport Equipment

	USD million		Change
	2009	**2010**	**%**
Exports	132.4	191.0	44.2%
Imports	454.6	764.2	68.1%
Trade balance	-322.2	-573.3	77.9%

Source: BCU

5. Ample space for growth in bank financing

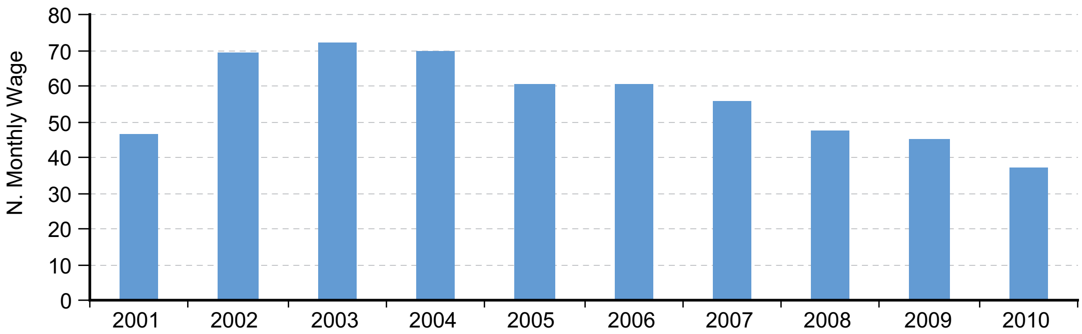
The level of financing of car purchases by the financial system in Uruguay is very low, although there has been a slight increase in recent years. Among the reasons explaining this are the high relative price of vehicles in terms of wages and the high rate of informality in the labor market.

A significant proportion of the price of vehicles is taxes and duties, in particular import tariffs. For a vehicle from outside the Mercosur zone the tax and duties (import tariffs, VAT and the specific internal tax (IMESI) account for 49% of the price, while for vehicles from Argentina and Brazil (Mercosur) or Mexico (given the free trade agreement) the figure is 39%.

As can be seen in Chart 5, about 37 average monthly wages were required in 2010 to buy a vehicle. Although this proportion has improved since 2004 as a result of the appreciation of the real exchange rate and higher real wages, it is still high compared to countries such as Argentina, where the proportion is 28 monthly wages.

Chart 5

Access to Vehicle



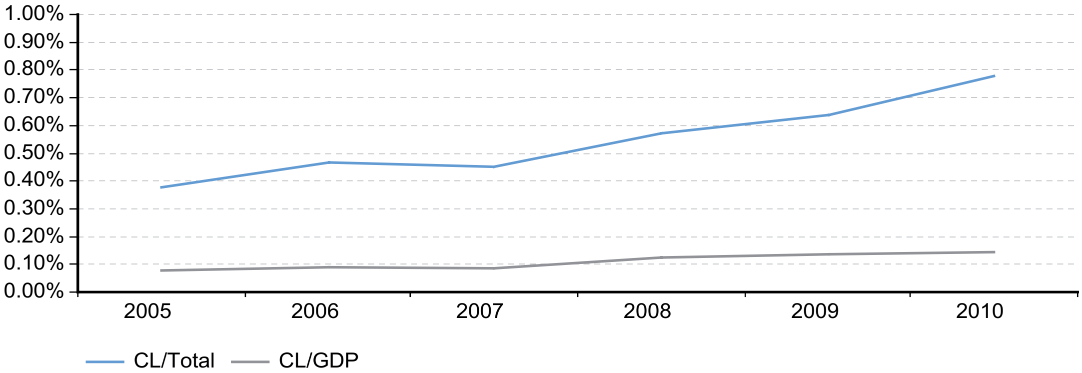
Source: BBVA Research

Around 51% of the labor force works in the informal market. This limits their access to bank finance. As a result, the share of car loans out of total lending is only 0.8%, while as a proportion of GDP it is barely 0.14% (Chart 6).

As an example, a typical loan is for up to 5 years with a nominal rate of around 7.5% a year plus the corresponding inflation rate (the so called “indexed unit credits”). It is worth noting that in recent years the nominal interest rate has tended to fall. Loans can also be in dollars at rates of around 9% a year.

The lack of car loans has been partially offset by other forms of financing, such as the use of consumer lending facilities for the purchase of vehicles, the growing importance of leasing as a means of financing light and heavy utility vehicles, and also finance via dealers.

Chart 6
Car Loans



Source: BBVA Research

In a positive macroeconomic scenario over the coming years, together with the prospects for growth in vehicle sales, bank financing will probably allow the financing of car purchases. The challenge, then, is to develop new financial instruments that can increase credit penetration and take advantage of the broad liquidity and solvency of the financial institutions operating in the market.

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