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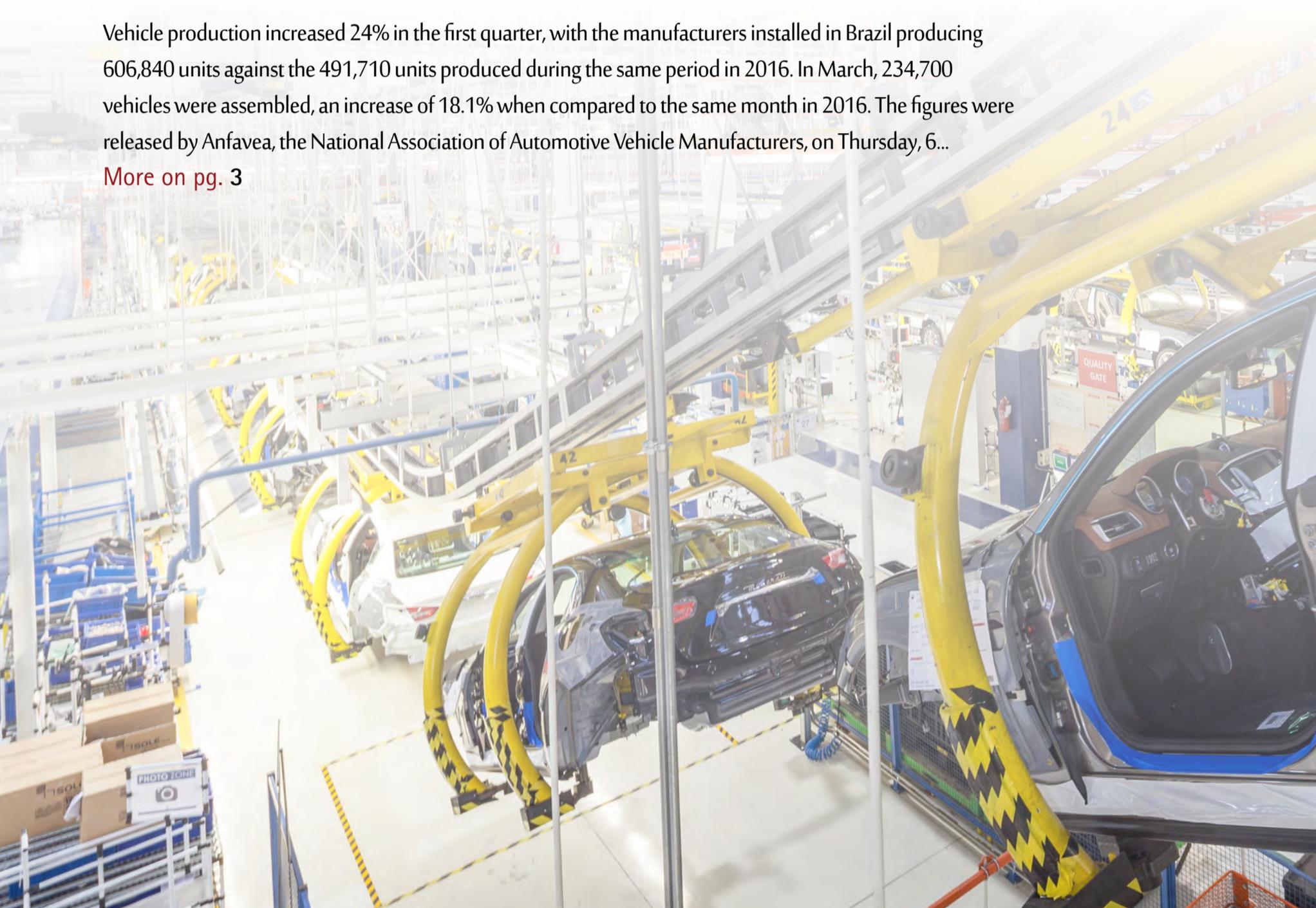
Edition
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Weekly Brazilian automotive industry news | 4.3 to 4.8.2017 Year XII

Production growing but idle capacity remains high

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**Exports reach
new record high**

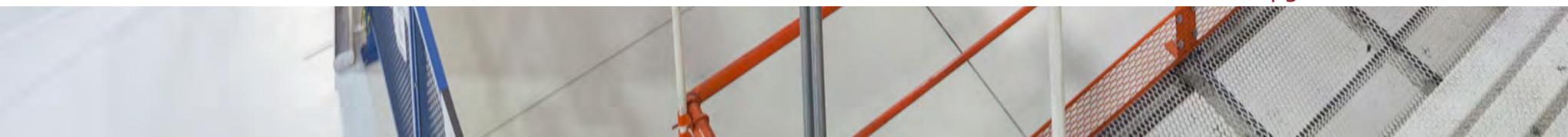
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**Mercedes-Benz upgrades
plants and cares for suppliers**

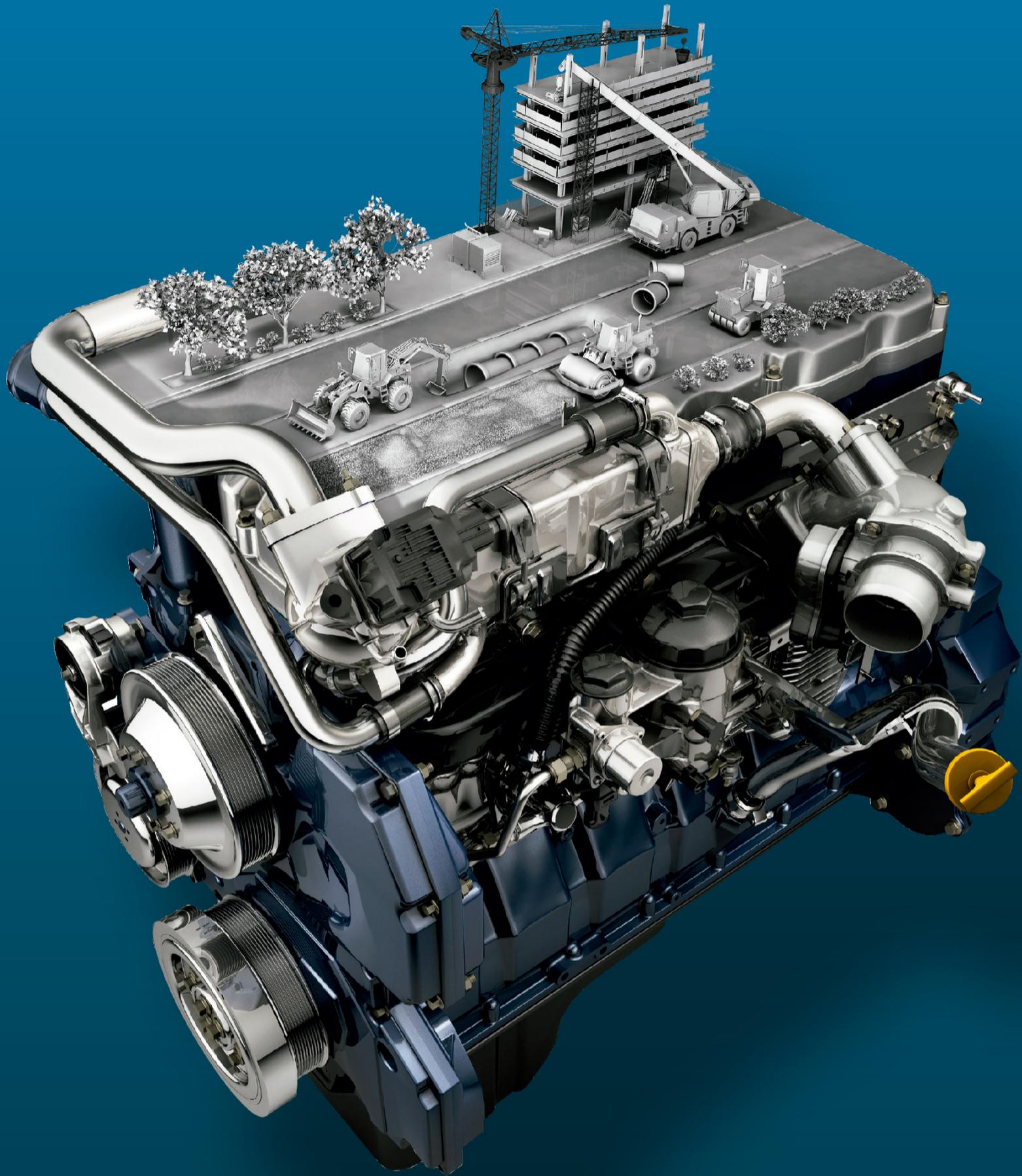
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**Lack of predictability
is a challenge
to financial executives**

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Production growing but idle capacity remains high

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Vehicle production increased 24% in the first quarter, with the manufacturers installed in Brazil producing 606,840 units against the 491,710 units produced during the same period in 2016. In March, 234,700 vehicles were assembled, an increase of 18.1% when compared to the same month in 2016. The figures were released by Anfavea, the National Association of Automotive Vehicle Manufacturers, on Thursday, 6.

According to the association's president, Antônio Megale, despite the growth in output, idle capacity continues high, principally at the commercial vehicles' manufacturers.



“We are working at a level below the average of the last ten years. This rate does not reduce the idle capacities at the plants. Currently, companies are using approximately 50% of their installed capacity in the country and, in commercial vehicles, that ratio is 75%. “

That installed capacity is sufficient to produce 5 million units/year.

Anfavea is expecting April's output to be lower. According to Megale, companies accelerated production this quarter to meet export demand and to form inventory for April, which will have less business days for production and sales: “We're have adequate inventories for the month.”

In March, vehicle inventory closed at 218.6 thousand units, which is equivalent to an average of 35 days of sales. Inventory at the dealers closed at 139.6 thousand units, while at the manufacturers it closed at 79 thousand units: “This volume is above the ideal level, which is thirty days of sales. But it's not far away. This indicates that the market is stabilizing.”

In February, inventories closed at 205.5 thousand units, including 139 thousand units and 66.5 thousand units at the dealers and manufacturers, respectively.

Despite the improved activity level in the automotive industry, companies employed 103,635 workers in March. This represented a drop of 8.7% in the workforce when compared to March 2016, when companies had 113,523 employees. When comparing the number of employees in the agricultural and road machines manufacturers in March, which had a March workforce of 121,048 persons, a drop of 6% when compared to the same month in 2016.

Megale blames the drop in the workforce to the changes made by the companies to adjust themselves to the market. According to Anfavea, 10,636 workers were under one form of production adjustment program, or lay-offs, temporary suspension of the employment contract, PSE, the employment insurance program, formerly called PPE.

“There are strong efforts to increase productivity at the plants,” said Megale. “Many companies can improve production without opening another work shift. This has been the effort of manufacturers in the country. “

Exports reach new record high

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During the first quarter of this year, exports of vehicles achieved a new record high. Between January and March, 172,693 units were shipped abroad, representing a 69.7% increase when compared to the same period last year, when exports totaled 101.8 thousand units. The figures were released by Anfavea. The main export markets during the period were Argentina, with 65%, Mexico, with 13% and Chile, with 5%.

The association says the increase derived from the strategies of manufacturers to find new markets during the past two years driven by lower domestic market demand.

Antônio Megale, president of Anfavea, said on Thursday, 6, it is possible that Anfavea may review one of its forecasts for this year:

“If exports continue at this pace, there may be a revision in the export forecast in the second semester.”

For this year, and for the meantime, the export forecast is of 558,000 units, a 7.2% increase when compared to last year.

The president of the association added that Brazilian trade agreements with neighboring countries helped the sector achieve a record performance in the quarter. The agreement with Uruguay, signed at the end of 2015, according to Megale, reflected in exports of the sector this year:

“Last year we exported 11 thousand units to Uruguay. In the first quarter of this year, 8 thousand units were shipped to the country. This shows how trade agreements are important, and how the government is helping the industry in this direction.”

Industry expects that the free-trade agreement with Colombia, which should be implemented officially later this year, will further increase vehicle exports. In addition, there is the possibility

that Argentina, the main destination of the vehicles produced in Brazil, reach a new record this year:

“In 2016, 700,000 vehicles were shipped abroad. This year, this volume should hit a new record, around 900,000 units. Since we are the country’s major vehicles trading partner, everything indicates that we will have higher trade balances in coming quarters. ”

Exports of light vehicles totaled 165,200 units in the quarter, 71.9% above the same quarter last year. Truck exports totaled 5,844 units, a 42.4% increase, while bus shipments totaled 1,636 units, an increase of 3.9%.

In the truck segment, the highlight went to heavy trucks, with shipments abroad totaling 2,106 units, a 27.2% increase when compared to the same period last year. Expressive growth in annual comparison was also achieved in the semi-heavy trucks segment, with shipments of 1,963 units, an increase of 57.7% when compared to the first quarter of 2016.

Close to the record – Export increases to South America driven by the trade agreements reflected directly on revenues during the first quarter. Between January and March, export revenues totaled US\$ 3.343 billion. This value is higher than the US\$ 2.888 billion registered in 2014 and is close to the US\$ 3.553 billion reached in 2012.

The agricultural machines segment has generated good results within the industry in recent months. It registered a 14.4% increase in exports. In the first quarter, 2,268 units, which generated revenues of US\$ 545 million when compared to the US\$ 439 million registered last year. This segment began showing positive export performance in June, but growth is still considered timid because the national product has faced difficulties in competing in neighboring markets.

According to Ana Helena Corrêa Andrade, Vice President of Anfavea and Director of Government Affairs at AGCO South America, “Brazil has lost business in the traditional markets of the region because of other countries that are exporting to them, and that’s a warning sign. Asians, for example, are matching their prices to make their products more competitive.”

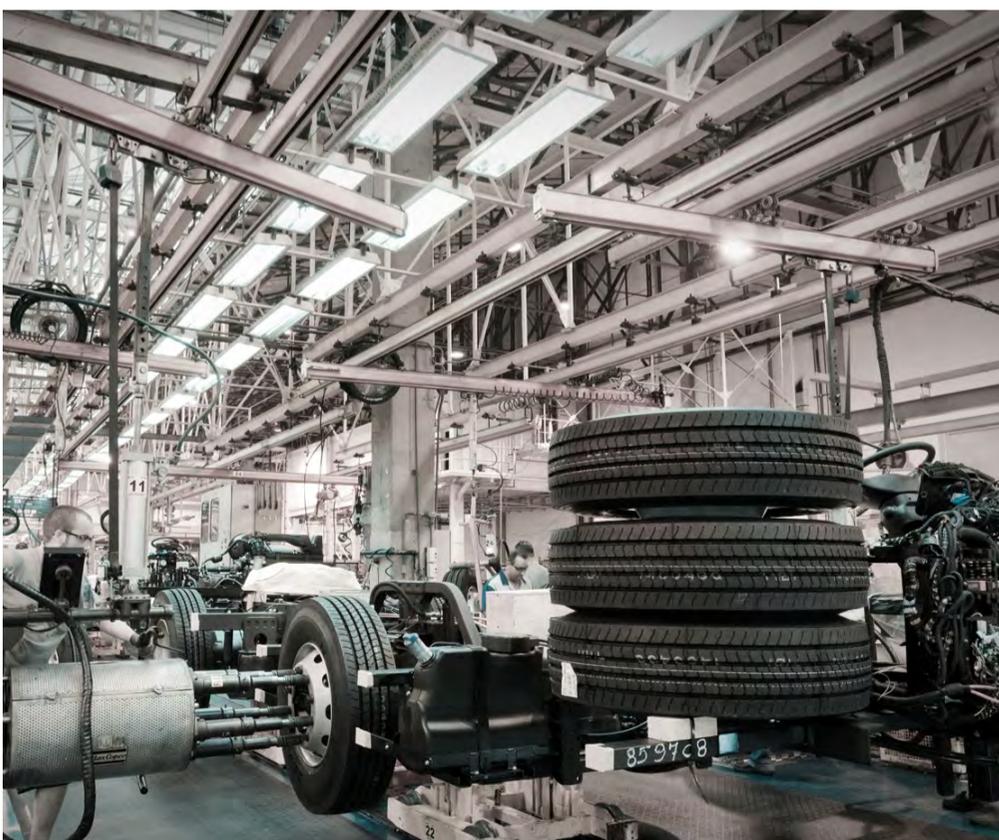
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Mercedes-Benz upgrades plants and cares for suppliers

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The Mercedes-Benz plants in São Bernardo do Campo, SP, and in Juiz de Fora, MG, should become reference to Daimler in the world. According to the company's President for Latin America, Phillip Schiemer, R\$ 730 million are being invested mostly to upgrade the units to increase productivity. More than 60% of the total investments, which are scheduled to last up to 2018, have already been spent. "It's a significant upgrade. We haven't done that in the last 30 years. All of the lines needed to be modernized, the machines are old."

Schiemer said that some processes have been outsourced to improve the competitiveness of Brazilian plants. "When we came to Brazil, 60 years ago, we had to manufacture many parts of our vehicles. Now, we already have qualified suppliers. We identified production line bottlenecks that prevented productivity gains," he said, without mentioning what type of component has been outsourced.



MBB

Mercedes-Benz has 400 suppliers. According to Schiemer, most of them are in healthy financial situation, despite the crisis in the automotive sector. The company monitors the partners daily and, when there is a problem Mercedes-Benz reviews how to assist the supplier in order not to impact production. "When the situation is critical, we can anticipate receivables, buy raw materials or lend workers to the partner. The relationship is very close."

The purchasing Director of Mercedes-Benz,

Érodes Berbetz, said that this daily monitoring enables the company to detect that less than 5% of its purchases is made from suppliers in critical condition. "From there, we go in with the aid so that it does not stop to production. Another front is to help maintain competitive suppliers for when the market returns."

Mercedes-Benz expects an increase in sales, mainly of trucks, of around 10% this year. Last year, truck producers installed in Brazil sold 50,559 units. In 2015, this volume was 71,651 units. "A growth of up to 15% will not affect those suppliers in difficult situation," stated Berbetz.

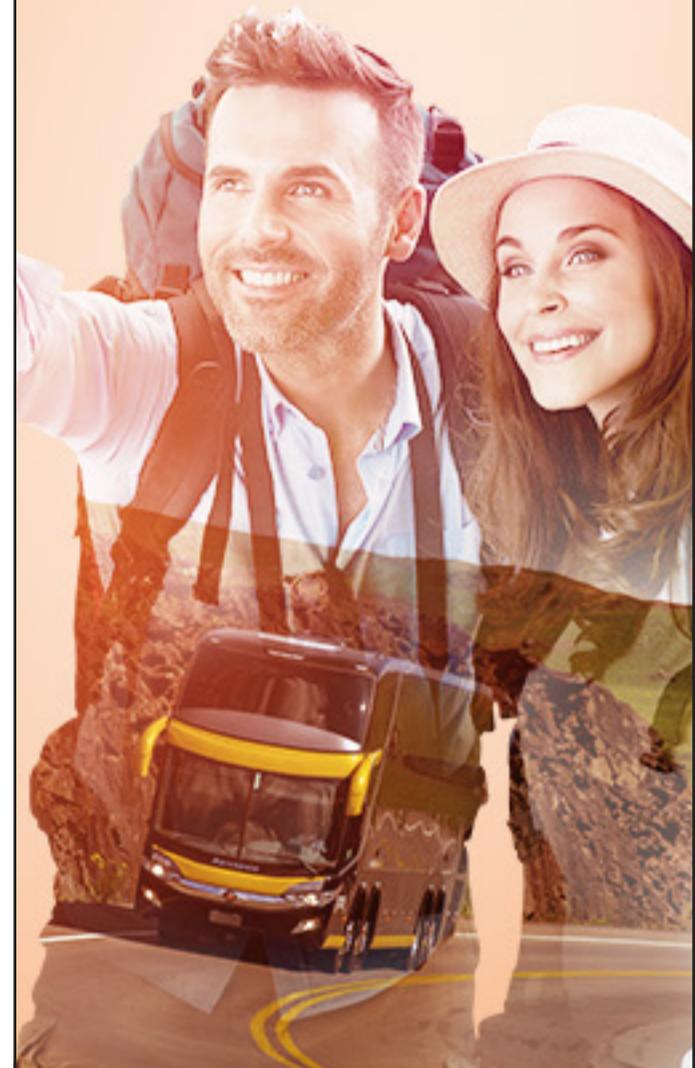
Brazil Cost – According to Schiemer, despite improved productivity at the plants in the country, Mercedes-Benz is uncompetitive in relation to other company units in the world. "The Brazil cost is too high. It is 20% more expensive produce here than in Mexico, for example. This is not for lack of competitiveness within the plants, but because of bureaucracy, high taxes and lack of efficient logistics."

For the executive, the economic crisis that the country faces is a good opportunity for structural reforms. This can improve competitiveness and promote the resumption of the Brazilian economy. "Brazil has a high tax burden, but before raising taxes, the government needs to look at what expenses can be cut. The problem is not revenues. The money is wasted. But, the absolute priority has to be fiscal adjustment. " **WE**

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Lack of predictability is a challenge to financial executives

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In a survey conducted in March by consultancy firm Deloitte, Brazilian financial executives have shown concern regarding the lack of economic and political predictability for decision-making. The study, which heard 112 professionals, showed that approximately 50% of them believe the most stressful portion of work relates to regulatory changes – involving the accounting, fiscal and sector areas –, constant changes in the strategies of organizations, and pressure for better results, with cost reductions and increased productivity.

This tension is caused because 60% of the respondents believe that the focus of the company where they work is to preserve the revenues in the markets in which they operate and seek greater efficiency in the processes in the next twelve months.

The lack of predictability that prevents long-term decision-making is a recurring subject in the Brazilian automotive industry. During the AutoData New Challenges of the Automotive Industry seminar, Philipp Schiemer, President of Mercedes-Benz Brazil, said that for Brazil to be more competitive, uncertainties must be lowered and more predictability public policy is needed - "In

addition to the fact that corruption has also led to the loss of credibility for the country.”

The executive confided that is becoming increasingly difficult to convince headquarters to invest here.

According to Fábio Perez, Director of Deloitte’s CFO Program in Brazil, this environment of uncertainty leads to high levels of stress to these professionals because they can’t have clarity to make their decisions.

“This generates loss of focus because they don’t know which way to go in the various scenarios that arise. This generates inefficiency of management.”

In this first survey of CFOs, Chief Financial Officers, finance directors and controllers from medium and large companies were asked about issues such as business, career, finance management and tech support. Within these themes, 22% of them said they are looking for better managerial strategies management and 14% said they feel exposed to risks due to the complexity of the current accounting and financial processes.

According to 67% of the respondents, there are two main barriers preventing companies from entering the digital age: fear regarding the investments required for the establishment of new technologies and the lack of finance teams prepared to lead this transformation.

According to Perez, the study also takes place in other countries such as the United States, Australia, Belgium, China and The Netherlands: “In countries with more stable economies, there are other tension drivers, such as concerns about investments needed for the company’s expansion into other markets.”

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