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Brazilian market in 2015 was equivalent to 2007

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Anfavea projects production volume stability in 2016

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Anfavea divulged on Thursday, 7, its projections for 2016. Unlike previous occasions, the ratios presented are more pessimistic than those from Fenabrave, which were divulged the previous day. While the association of vehicle distributors estimates a drop in domestic sales of 5.8% this year, representing 2.42 million units, the vehicle manufacturers' association provided a forecast of a 7.5% drop, that is, 2,376,000 units - with a 7.3% drop for light vehicles, representing 2.3 million units, and a 13.9% drop in sales of heavy vehicles, representing 76.1 thousand units.

According to Luiz Moan, president of Anfavea, the major indicators used for the forecast were the GDP estimate made by the Brazilian Central Bank, of -2.95%, and the average daily sales of vehicles registered during the third quarter of 2015, 9.4 thousand units, the lowest for the year. "We were conservative," admitted Moan, remembering that during the last quarter of 2015 the average daily sales volume totaled 9.9 thousand units.

Regarding production, Anfavea believes the overall ratio will remain stable, with a modest growth of 0.5%, totaling 2.44 million units, with production of light vehicles registering a negative performance of 0.1%, totaling 2,332,000 units, and the heavy vehicles segment registering a growth of 12.8%, totaling 107.8 thousand units.



Positive export ratios have been expected. In terms of volume, Anfavea estimates an increase of 8.1%, totaling 451.0 thousand units, with light vehicles registering an increase of 7.7%, representing 419.0 thousand units, and heavy vehicles registering an increase of 12.4%, representing 31.7 thousand units. In terms of value, overall export revenues for the industry are estimated to reach US\$ 11.3 billion, an increase of 7.6% when compared to 2015.

In the agricultural and road machinery segments, the association also expects to register positive numbers in 2016. Production is estimated to increase 2.3% this year, representing 56.6 thousand units. Sales should increase 2%, representing 45.8 thousand units, while exports should increase 7%, representing 10.7 thousand units.

Moan believes the two first quarters of this year

should register more profound drops in domestic market sales than the estimated 7.5% - during the first three months of 2015, average daily sales totaled 11.0 thousand units per day, while average daily sales from the fourth to the sixth months was 10.0 thousand units per day. "We should not be scared when this happens. The base of comparison will be inflated."

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FORECASTS - 2016

Vehicles (passenger and light commercial vehicles, heavy trucks and buses)

	Thousand units	2015	2016	% Change
Production	Total	2 429	2 440	0,5%
	Light vehicles	2 334	2 332	-0,1%
	Heavy vehicles	95,6	107,8	12,8%
License Registrations	Total	2 569	2 376	-7,5%
	Light vehicles	2 481	2 300	-7,3%
	Heavy vehicles	88,4	76,1	-13,9%
Exports	Total	417	451	8,1%
	Light vehicles	389	419	7,7%
	Heavy vehicles	28,2	31,7	12,4%

Agricultural and road machinery

Thousand units	2015	2016	% Change
Production	55,3	56,6	2,3%
Domestic sales	44,9	45,8	2%
Exports	10	10,7	7%

Vehicles and Agricultural and Road Machinery

US\$ billion	2015	2016	% Change
Exports (value)	10,5	11,3	7,6%

Brazilian market in 2015 was equivalent to 2007

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Sales of vehicles - passenger and light commercial vehicles, trucks, and buses - in the Brazilian market closed 2015 with a drop of 26.6%, representing 2,569,000 units, when compared to almost 3.5 million units in 2014. That is, in a period of only one year, the level of sales dropped practically 1 million units, utilizing a quite elastic rounding-off method.

The numbers were divulged by Anfavea on Thursday, 7, in São Paulo.

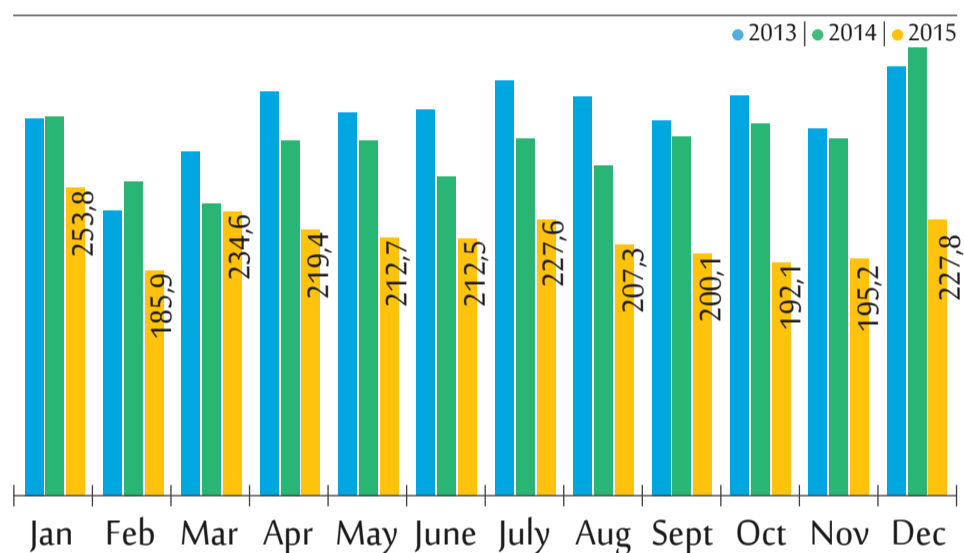
As a result, the annual volume closed around the volume registered in 2007, 2.4 million units. In 2008, the volume was higher when compared to 2015, 2.8 million units.

Light commercial vehicles, which traditionally register growth, this time moved in the opposite direction - it is important to note that the SUVs were extracted from this category in early 2015, and transferred to the passenger vehicles segment.

At the end of the year, light commercial vehicles registered a drop of 33.6%, that is, more than the 24% drop registered by passenger vehicles - in general, light vehicles volume dropped 25.6%.

In December alone, the Brazilian market closed at 190,472 units, representing a drop of 38.1% when compared to the 307.9 thousand units registered during the same month in

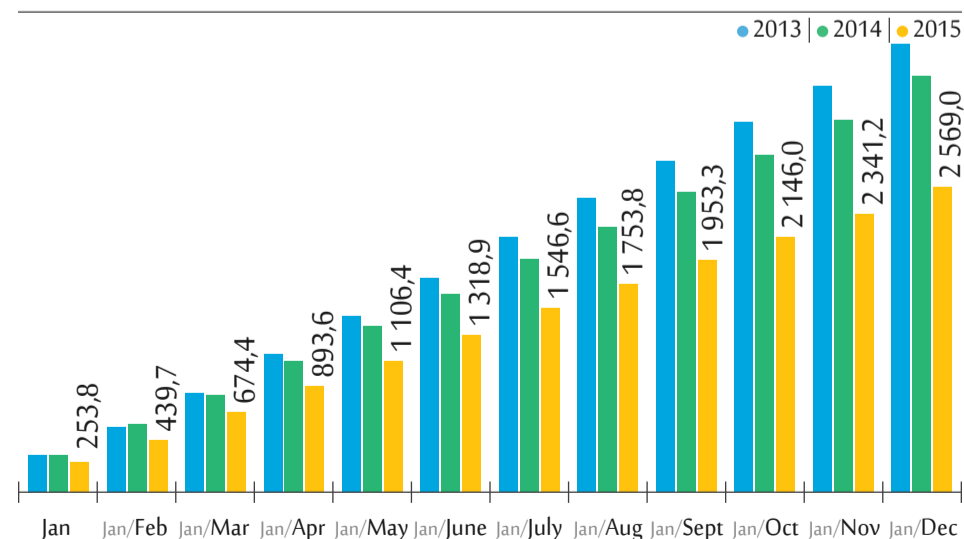
License registrations - Monthly (thousand units)



2014 - strongly stimulated by the end of the discounted IPI - but it also represented an increase of 14.1% when compared to the 167.0 thousand units registered in November.

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License registrations — Year-to-date (thousand units)



Production in December was the lowest for the month since 2008

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Image/FCA

With the biggest portion of plants in collective vacation leaves and full lots, one did not expect anything else in December beyond weak production numbers. And the result was significant: production

last month totaled only 142.9 thousand vehicles, representing a strong drop of 30% when compared to the 204,000 units produced during same month in 2014, and a drop of 18.4% when compared to the 175.0

thousand units produced in November.

This was the lowest production ratio for December since 2008.

Luiz Moan, president of Anfavea, declared on Thursday, 7, that inventory levels drove the movement registered during the month by the vehicle manufacturers. According to him, the ratio at the end of November reached “an incompatible level with a healthy rhythm for business” - at the time, 322.0 thousand units were being held in inventory, equivalent to 50 days of sales.

The initiative, at least, provided results: by the end of December, the volume had dropped to 271.0 thousand units, that is, equivalent to 36 days of sales.

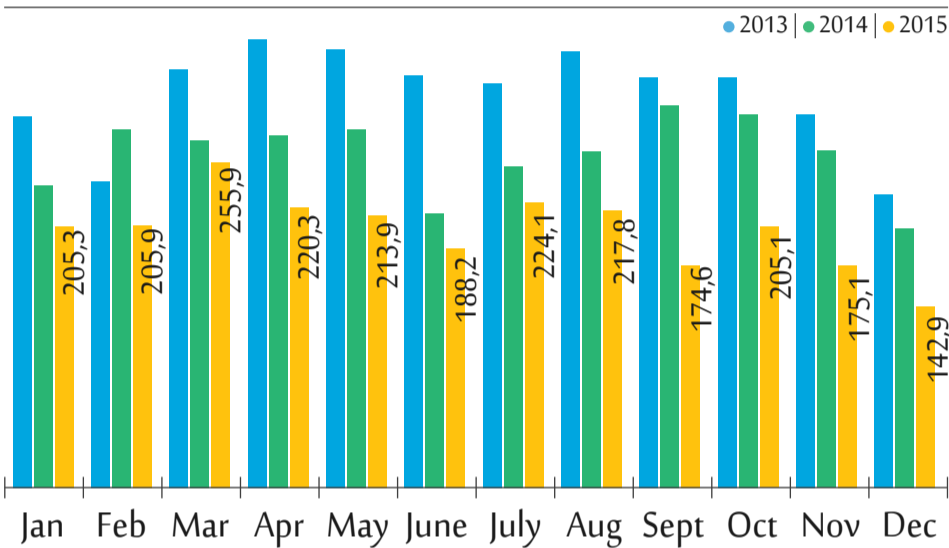
It is important to note, however, that the drop occurred only at the lots of the vehicle manufacturers, from 122.0 thousand units in November, to 69.0 thousand units in December. At the dealers, the volume continued practically the same, around 200.0 thousand vehicles.

The year of 2015 closed with vehicle production of 2.43 million units in Brazil, according to Anfavea figures, representing a drop of 22.8% when compared to the 3.15 million units produced in 2014.

This volume is equivalent to the one registered in 2006. From 2014 to 2013, productive ratios had already dropped 15%.

Employment in the sector also dropped as a result: overall, in 2015, the workforce was

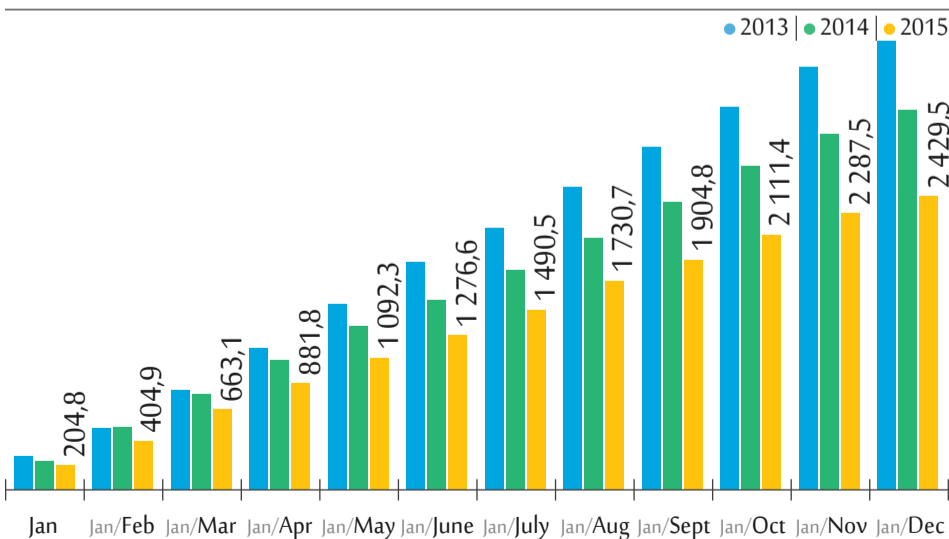
Production - Monthly (thousand units)



reduced by 10%, equivalent to almost 15.0 thousand positions when compared to 2014. The automotive industry’s workforce now stands at 130.0 thousand - at the end of 2013, that is, two years ago, it stood at 157.0 thousand.

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Production - Year-to-date (thousand units)



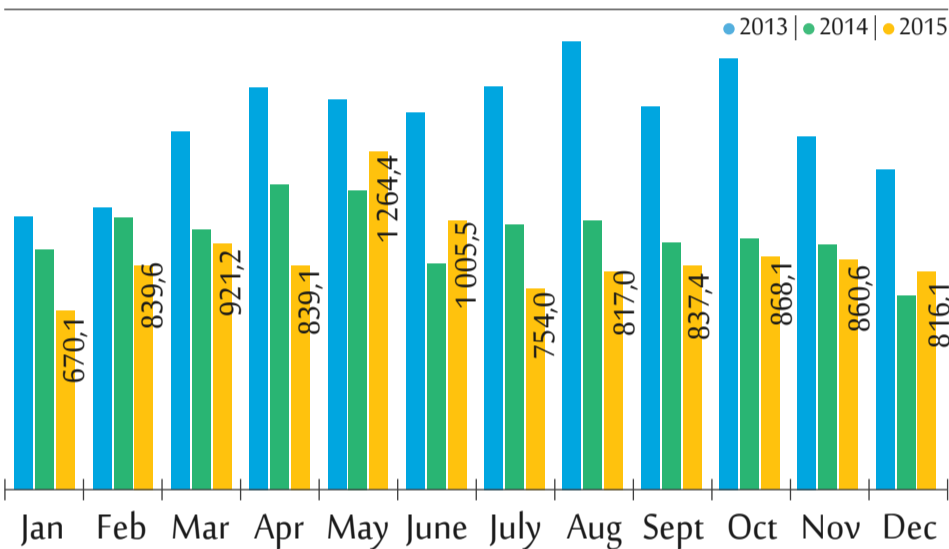
Vehicle exports up 28.5% in 2015

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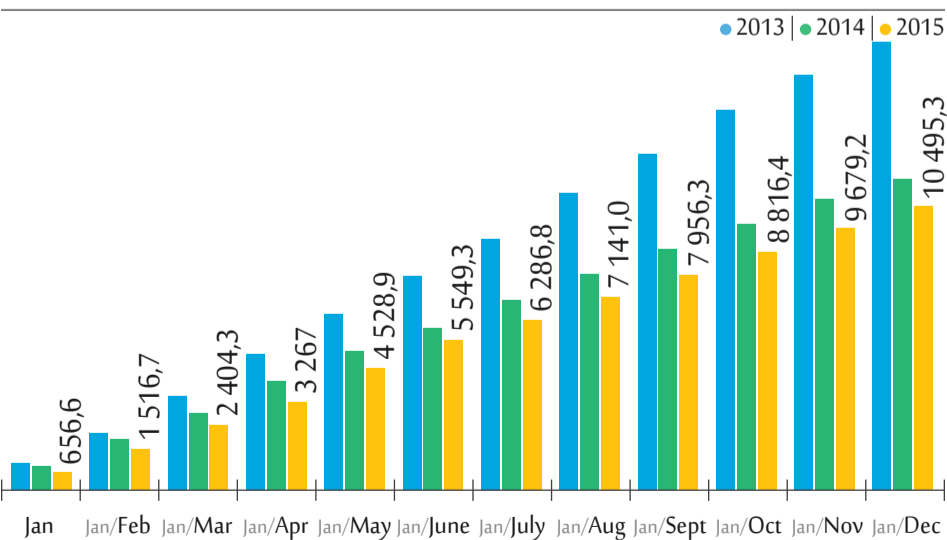
The automotive sector closed 2015 with a growth of 24.8% in shipments abroad, with exports totaling 416.9 thousand units when compared to 334.2 thousand units registered the previous year. Exports of agricultural and construction machinery registered a drop of 39.2% in revenues, representing US\$ 1.7 billion against US\$ 2.8 billion in 2014.

The figures were divulged on Thursday, 7, by the president of Anfavea, Luiz Moan, who attributed the drop in overall revenues to the mix of products shipped abroad. That is, there were more shipments of light vehicles, with smaller unit cost, and fewer heavy vehicles. However, the executive showed optimism as to the possibility of the sector exporting more this year, projecting an increase of 7.6% in revenues in 2016 when compared to 2015, which

Exports - Monthly (US\$ million)



Exports - Year-to-date (US\$ million)



would represent approximately US\$ 11.3 billion.

Moan added that the recent free trade agreement signed with Uruguay, highlighting that 12 years ago there was no such agreement in the automotive area: “We hope this will be the first of a new series of free trade agreements in our sector.”

Once again, the president of Anfavea offered growth export ratios for a few countries, revealing that, in the passenger vehicles area, there was an increase of 5.8% in sales to Argentina, growth of 83% to Chile, 75% to Mexico, and 63% to Peru. Truck exports registered a growth of 54% to countries in Africa, and 88% to Mexico. In agricultural machinery, according to Moan, the sector is already beginning to feel improved business with Argentina.

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Image/Archive

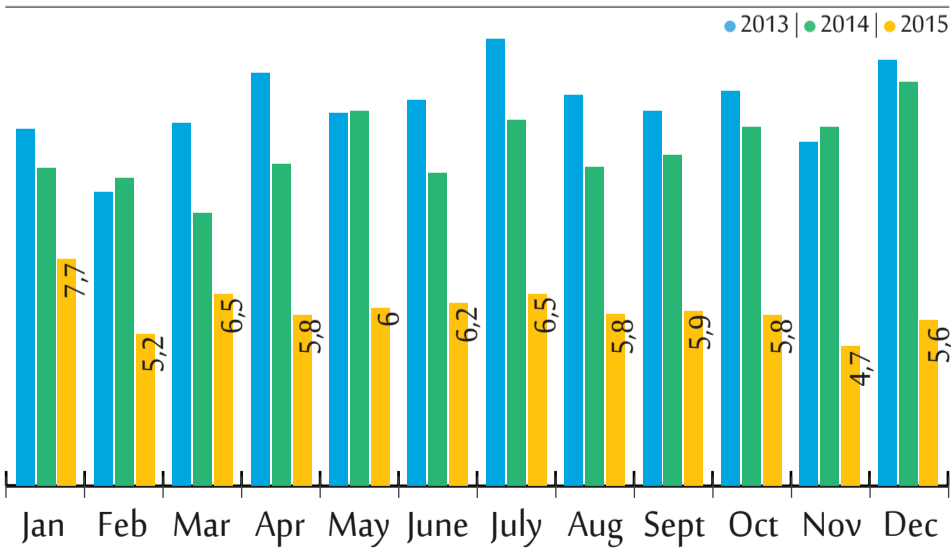
Heavy trucks: predictability has returned.

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More than lower interest rates subsidized through financing offered by official banks, the truck sector during the past years wanted well-defined rules for the long-term. Last year, for example, regulations concerning Finame PSI were issued in mid-January and its operation began one month later, affecting sales negatively practically for the first full two months.

The good news in the sector arrived right before Christmas, in a meeting called by the government on December 23, attended

Trucks - Monthly (thousand units)



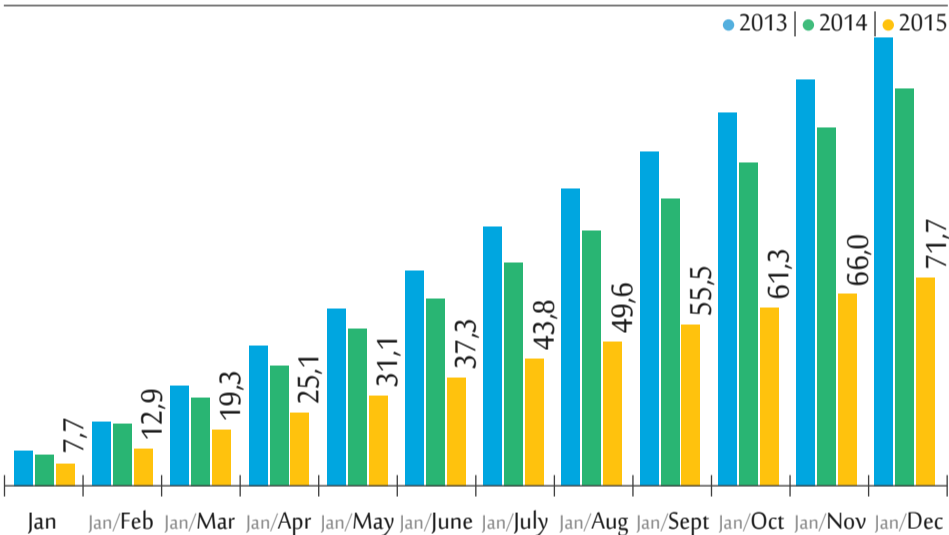
by the president and vice president of the association, Luiz Moan, and Luiz Carlos Moraes, respectively: despite confirming the end of the Finame PSI, the TJLP modality is back - and, with an increase of the amount of financing from 70% to 80% for small and medium-sized companies, and from 50% to 70% for big companies.

Banks now need to adjust their systems so the new rules can enter into operation, which, according to Anfavea executives, should happen still this month.

“We operated the Finame TJLP in the past and support the government’s decision,” stated Moraes, during a press conference on Thursday, 7. “We will now roll up our sleeves and sell trucks and buses to our customers. This line offers attractive conditions when compared to other tools available in the market.”

This will not be an easy task, since the industry projects it should not obtain results above the level of 71.7 thousand units in sales registered last year, which represented a drop of 47.7% when compared to 2014. “During the entire year we maintained an average of approximately 6.0 thousand units in sales per month, which was already low. During the past months,

Trucks - Year-to-date (thousand units)



it worsened, and remained between 4.0 and 5.0 thousand units, resulting in this drop of almost 50%.”

In December, Brazilians acquired 5.6 thousand trucks, representing a drop of 59% when compared to the same month in 2014, but an increase of 18.6% when compared to November, the worst month of the year.

Despite the reaction in exports, which registered a growth of 17.7% last year, totaling 20.9 thousand units, production dropped by almost half also, representing 74.1 thousand trucks when compared to the 140.0 thousand units produced the year before.

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Bus sales dropped 39% in 2015

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The bus chassis market closed last year with sales of 16.8 thousand units in Brazil, representing a drop of 39% when compared to the 27.4 thousand units sold in 2014. The numbers were divulged by Anfavea on Thursday, 7.

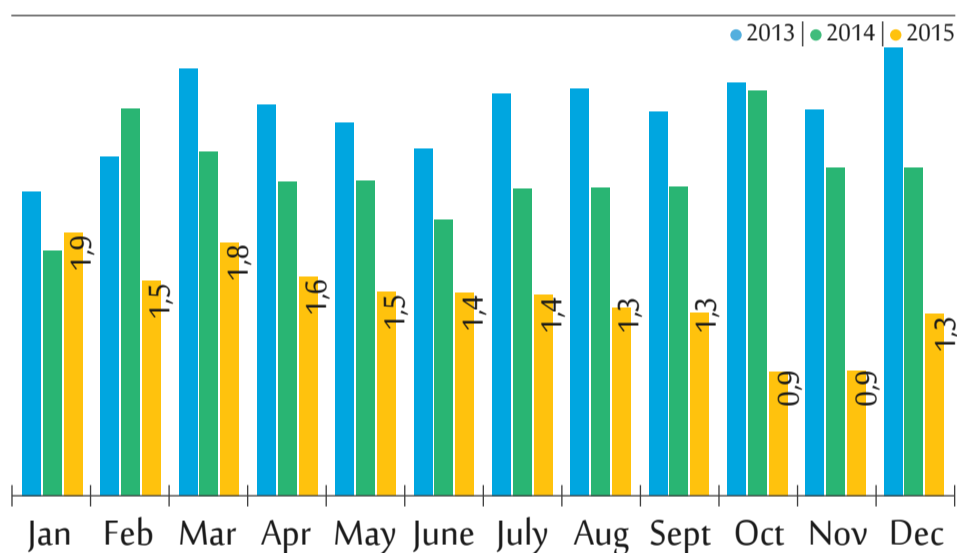
In December, the sector recovered from the terrible result registered in November, when the number of chassis licensed totaled only 891 units, closing the month with sales of 1.3 thousand units, representing an increase of 45.6%. When compared to December 2014, however, sales registered a drop of 44%.

Such performance reflected itself in production: during the year, the assembly lines produced 21.5 thousand chassis, representing a drop of 34.7% when compared to 2014. In December, production totaled only 541 units, due to the vacations at the vehicle manufacturers and the need to adjust accumulated inventories in November.

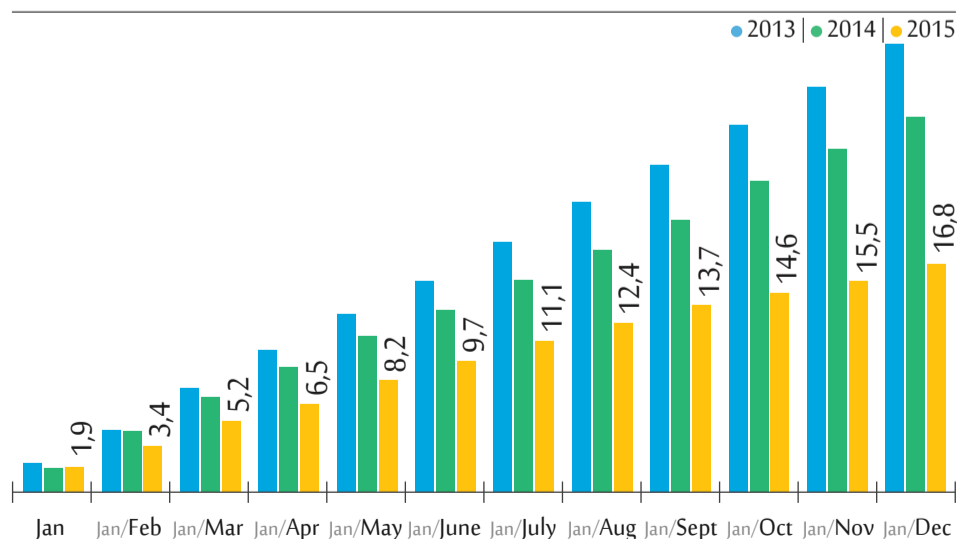
The sector advanced in foreign markets, however: 7.4 thousand chassis were shipped abroad last year, representing an increase of 11% when compared to 2014.

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Buses - Monthly (thousand units)



Buses - Year-to-date (thousand units)



Drop of 34.5% in agricultural and construction machines

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In contrast to the positive numbers from the agribusiness sector, with a new record grains harvest output, the agricultural machinery sector faced a strong recession in 2015 and the majority of the manufacturers in the segment, as well as the producers of road machinery,

suspended production in December to try to start the year without high inventories.

Domestic sales of agricultural and road machinery totaled 44,944 units in 2015, representing a drop of 34.5% when compared to the 68.8 thousand units sold



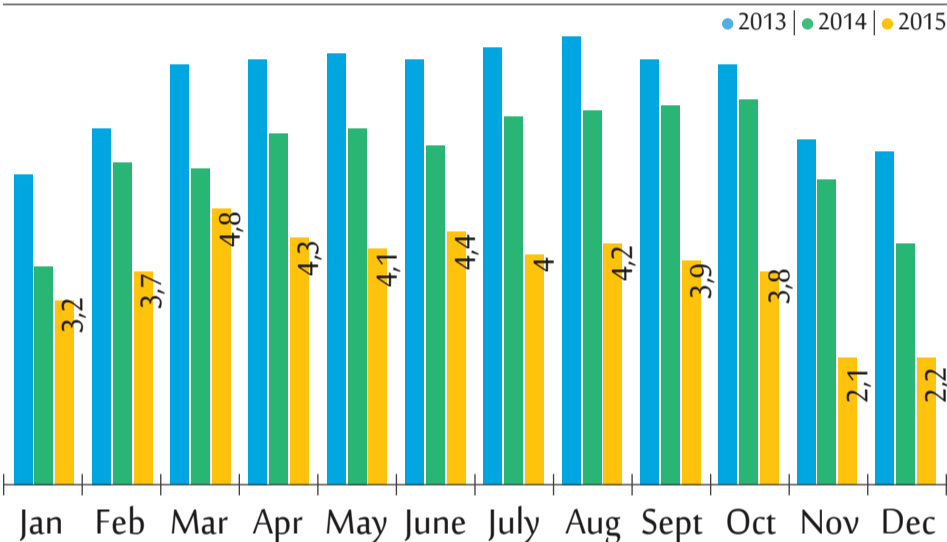
Image/Archive

in 2014. In December, due to the collective vacations, production in both segments totaled 925 units, a drop of 75.3% when compared to the same month in 2014, and a drop of 76% when compared to November, when production totaled 3.5 thousand and 3.8 thousand units, respectively.

Last year, agricultural and road machinery production totaled 55.3 thousand units, a drop of 32.8% when compared to the 82.3 thousand units produced in 2014. The figures were released on Thursday, 7, by the president of Anfavea, Luiz Moan, and the vice president of the association, Ana Helena de Andrade, representative of the agricultural area within the association.

Highlighting the good performance of the

Machinery - Monthly (thousand units)

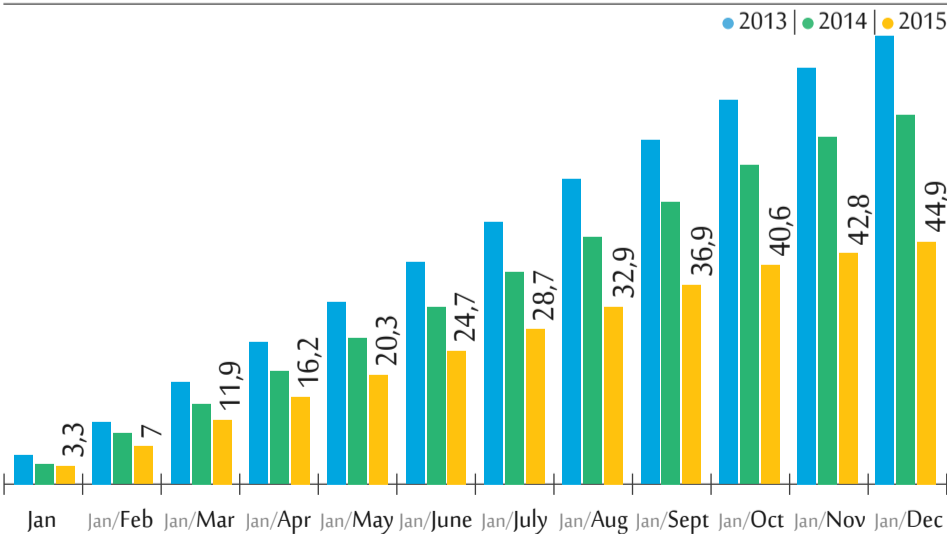


agricultural sector in 2015, Andrade attributed the terrible performance of agricultural and road machinery manufacturers to a lack of confidence by the consumers, who, given the uncertainties of the Brazilian economy, slowed down their investments.

“We have returned to the level of 2008,” she stated. “In addition to the lack of confidence, changes implemented during the year regarding the time frames and interest rates of financing were also negative. As a result, manufacturers faced big problems to adjust production to demand.”

The performance of the agricultural and road machinery segment was also negative in exports, which suffered a drop of 27.2% in the number of units shipped abroad: 10,000 in 2015 when compared to 13.7 thousand in 2014. **WE**

Machinery - Year-to-date (thousand units)



Share of imported vehicles should drop even further in 2016

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Image/JLR

The share of imported vehicles in the Brazilian market continues to drop. In 2015, this ratio closed at 16.1%, according to figures released by Anfavea, similar to the share of 15.6% registered in 2009 - the estimate takes into account the models imported from abroad not only by the companies without manufacturing facilities in the country, as well as those that also produce here.

The projection for 2016 calls for a new drop: according to Luiz Moan, president of the association, the

market share for imported vehicles should total 15% this year.

The share of imported vehicles in the Brazilian market has dropped during the past four years. In 2011, it closed at 23.6%, dropping to 20.7% in 2012, 18.8% in 2013, 17.6% in 2014, and 16.1% in 2015. If Anfavea's projection comes true, in 2016, this should be the fifth consecutive year in which this segment registers a negative performance.



According to the association's projection for the domestic market of sales of slightly less than 2.4 million units, the imported models would, therefore total only 356.0 thousand units. In 2015, this volume represented 414.0 thousand units, representing a drop of 33% when compared to the 617.0 thousand units registered in 2014, which had already registered a drop of 13% when compared to 2013, 707.0 thousand, a drop of 10% compared to 2012, 788.0 thousand, a drop of 7% when compared to 2011, 858.0 thousand. That is, sales of imported models last year represented half of the volume sold four years before, and its result should be still 60.0 thousand units lower this year.

This year, the scenario should be fruit of the higher value of the US dollar, currently around R\$ 4.00: the higher the exchange rate, naturally, the higher the price

of imported vehicles - last year, for example, Chrysler readjusted the prices of its Jeep Wrangler model by R\$ 10,000 at one shot. Other manufacturers followed this trend.

But the scenario has been occurring as a result of the Inovar-Auto program: a good portion of the drop in imports is linked to the beginning of local production of models previously brought from abroad, such as in the case of the BMW Series 3, X1 and X3. In 2016 almost an avalanche of examples are scheduled to take place: Mercedes-Benz C Class, VW Golf, Audi A3 sedan and Q3, and the Land Rover Range Rover Evoque are a few of them.

To this, one must add the renegotiation of the Brazil-Mexico automotive agreement, which now is based on quotas, contributing to a strong drop in volumes of models sold in Brazil from that country. **WE**