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Truck market should grow 10% next year

[More on pg. 2](#)

Supply base could compromise recovery

[More on pg. 6](#)

Consensus around a 5% growth in the light vehicles market

[More on pg. 10](#)

Letícia Costa: Inflection point has not arrived, yet.

[More on pg. 4](#)

Autoparts sector should grow 2.7% in 2017

[More on pg. 8](#)

General Motors, the most optimistic

[More on pg. 12](#)



Truck market should grow 10% next year

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The Brazilian truck market should begin recovering itself starting in March next year. During the coming months, however, the number of heavy vehicles licensed should remain around the current level of 5000 units/month. The outlook belongs to Antonio Cammarosano, national truck sales manager at MAN Latin America, who participated in the AutoData Outlook 2017 Congress, which took place on Monday, 17, at the American Chamber of Commerce in São Paulo.

“From now on, the recovery should be real. I believe that, in the coming year, truck sales should grow 10%,” he stated. Still according to him, the market increase experienced between 2005 and 2014 was marked by subsidized financing and anticipation of purchases, principally in 2011, the

year when the number of trucks licensed totaled 170,000 units, which was also marked by the switchover from the Euro 3 to the Euro 5 standard.

According to him, those factors helped mask the economic drop that had been gaining force in the country since 2013. "The market drop in 2015 and 2016 occurred in the same intensity as the growth that was taking place in the previous years. If we did not have the subsidized credit, perhaps today's market would be around 70,000 units. It would represent a drop, but not as significant as the current one. The recovery, as a result, should be more sustained and more in line with the growth of the GDP," he stated, adding that the outlook for this year should be for sales of around 50,000 trucks.

With sales in a more sustained growth mode, Cammarosano pointed out that production should keep pace. According to him, there was an estimated 20% increase in the assembly of trucks in Brazil for 2017, but that estimate has been cut by half, to around 10%. "Companies are working with more adjusted inventory, about 30 days. Before, inventories stood at 90 days. This directly impacts production." Currently, truck inventory in Brazil stands at 45 days.

Exports could improve truck production next year, if the efforts of the truck manufacturers take effect. With increased shipments, production may register a growth of 20% in 2017. "However, looking at the numbers of the domestic market, the increase should not be much above 10% next year," he said.

Regarding the bus market, Cammarosano estimates that the growth should be between 10% and 15% in 2017. "Sales of buses should return to the normal level seen in 2015, which is around 60,000 units. The volumes experienced up to 2005 were inflated by the creation of government programs such as Caminho da Escola, as well as attractive finance. Similar to the truck segment, we should see a more sustained recovery, without such tricks," believes the executive. "We have learned from this adverse scenario that we can look at the rearview mirror and see that the worst has already passed. We are moving towards maturity in the economic recovery and this should sustain itself for the coming years."

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Letícia Costa: Inflection point has not arrived, yet.

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The economic crisis that is rocking Brazil has no date to end and the worst moment may not have passed. “The tipping point has not yet arrived,” says Letícia Costa, managing partner of consulting firm Prada, one of the speakers at the AutoData Outlook 2017 Congress, held at Amcham, the American Chamber of Commerce in Sao Paulo, on Monday, 17.

According to Letícia, despite heading for an improvement, the scenario is still hazy. “We have three main fronts to analyze: political, economic, and business and consumer confidence,” she says. “I believe that Brazil should register a surplus only in 2019. The recovery will be slow and gradual.” According to her, in the political scenario, the arrival of Michel Temer as president is not enough reason to believe that the worst political moment has passed. The consultant believes that Congress support of the new government can speed up the implementation of necessary

measures, which were stagnant when Dilma Rousseff was in command. “But this government has yet to prove it is effective. It is a fact that the announced measures, including unpopular ones, indicate a policy closer to the needs of the country. But I still cannot say that everything has been resolved,” she said.

Another political aspect that must be observed carefully relates to the progress of Lava-Jato operation. Letícia points out that the scenario could take on dramatic contours if Odebrecht and OAS decide to strike deals. “Half of Congress would be involved, and that would deepen the

political crisis," she believes.

On the economic front, she points out that the numbers don't show a recovery. "Every preliminary GDP figure brings a new disappointment. We are waiting for the numbers to go back to the positive range, but the truth is that we still don't have them," she says. Letícia believes that Brazil should register a stable GDP, or perhaps an increase of 0.5%, in 2017, compared the results of this year. "I'm cautiously optimistic, but I don't believe in the Focus forecast of an increase of more than 1%," she says.

The unemployment rate is also a concern. According to Letícia, unemployment should peak at 14 million people, and then gradually begin to drop.

Another concern in the economic scenario is industry's lack of investment capacity. "The truth is that industry lost solvency in Brazil. Many companies do not have how to invest with such a high interest rate, and those that do, do not necessarily plan to invest," she says. According to her, the lack of government money to provide stimuli should be added to the calculation. "The deficit keeps growing and moving in the opposite direction, towards spending cuts." Letícia believes that a way to improve the situation is to bet on the concessions program, as signaled by the current government. "At the moment, foreign capital gains an even more fundamental role to assist in the recovery."

According to Letícia Costa, the only concrete good news so far relates to consumer confidence. "Despite not having returned to the historical average, there is an advance in the ratios, which is due more to optimism over what might happen than based on the current situation," she says. "It's more of a psychological factor than real."

Automotive industry - The automotive industry according to Letícia, has a huge challenge in the coming years. "This is the moment to define if we really want to be a competitive industry and take the necessary measures to ensure that," she says. Contrary to Anfavea estimates, which call for provides increases between 8% and 9% in sales volume in 2017, Letícia believes sales should remain stable, or grow up to 5% next year. Issues such as Mercosul trade agreements, the Inovar-Auto program, and exports, should dominate the sector's agenda next year. "These are crucial points in order to define our participation in global industry," she concluded.

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Supply base could compromise recovery

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Tier 2 and 3 suppliers are a source of concern to Delphi, Eaton and Bosch. The presidents of these companies participated in a panel during the AutoData Outlook 2017 Congress at the American Chamber of Commerce in São Paulo, on Monday, 17, and said that the industry's recovery also depends on the reaction capacity of suppliers. There is consensus that the scenario should be more favorable in 2017, but the difficulties of the chain could jeopardize a more effective recovery.

In an attempt to ease the problem, Besalier Botelho, president of Bosch, pointed out that the company has been conducting a program to assist 25 suppliers to evolve their managerial, productivity and competitiveness levels for a little over a year. "In four years, we've gone from a market of 4.5 million to 2.5 million vehicles in the Mercosul. It is natural that this should affect all parts of the chain. Robustness and an assertive strategy are needed to overcome the moment," he said.

At Eaton, there are 28 suppliers under a state of attention. "Of that total, five are terminally ill," says Antonio C. Galvão, president of Eaton. According to him, it is possible to make the following analysis:

If the economic crisis causes a storm, the automakers are at sea holding on to the bow of the ship, while the systems suppliers are submerged, breathing with the aid of oxygen cylinders, and the tiers 2 and 3 depend exclusively on their lungs. "The small and mid-sized companies, genuinely national, are of most concern," he recalls.

According to Paulo Santos, president of Delphi, the base of suppliers is a source of delivery and quality concerns. "We are increasingly closer to them in order to ensure there are no major compromises."

Cleaning house – All three companies had to reorganize operations in Brazil during the past two years in order to alleviate the effects of the downturn in sales. The common thread was to bet on exports.

At Eaton, about 1000 employees were let go and the spare parts and exports areas were strengthened. "Although our market has fallen 20%, other fronts have made the final results remain stable," says Galvão.

Bosch bet on the development of global products to boost exports. "Currently, about 37% of our production is shipped abroad," says Botelho. In addition to targeting foreign markets, Delphi also focused on new niches. "We invested more in the agricultural sector during the past year. We believe sales in this segment will increase in anticipation of the introduction of the MAR-1 environmental legislation," said Santos.

Technology – The executives also took advantage of the event to address the issue of the need to keep pace with global technological advance. According to the president of Bosch, there's a movement to review the importance of owning cars. "We have issues like the hybrids, shared, and autonomous vehicles. It is not yet possible to say whether the global level of 94 million vehicles a year will be maintained," he said. "Along with that, we have increasingly embedded technology in vehicles. This is a positive point, since it increases the value-added of products."

Meanwhile, at Eaton, the work on the production line is limited to one shift, while engineering works full-time. "We believe the market will accelerate again in 2017, and expressively in 2018, and we are preparing for it. We need to monitor global trends if we want to continue to export," he stated. **WE**

Autoparts sector should grow 2.7% in 2017

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While Anfavea estimated a market growth of up to 9% in 2017, Sindipeças is more cautious and estimates an increase of 2.7% in sales for next year. According to Dan Ioschpe, president of Sindipeças, the estimate suffers reviews every three months. "The construction of the ratio is based on conversations with our members, who are in direct contact with the automakers. I do hope we're wrong and the market recovers more quickly, though," said the executive, during his presentation on the second day of the AutoData Outlook 2017 Congress, held at the American Chamber of Commerce in São Paulo, on Tuesday, 18.

Ioschpe predicts that by January 2017 the sector should have some months with positive sales, when compared to 2015. "Based on orders, we believe we are close to the beginning of a recovery," he said.

Until positive results do not yet appear, the autoparts sector accounts for its losses. In 2013 the industry's revenue was R\$ 80 billion. This year the forecast is to reach R\$ 63 billion. "We estimate a drop of 4.5%, when compared to 2015. But, if we consider inflation of the past three years, the sector's turnover dropped to almost half," he stated.



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The volume of jobs also followed the downward trend. In the last two years, 36 thousand people lost their jobs in the autoparts industry in the country because of an idle capacity around 50%. “We are with 164,000 employees, but with the layoffs and dismissals in progress, it’s as if 145,000 people were working. For next year, we estimate job stability and an increase in productivity,” he said.

The level of investment in the sector also cooled down. It is estimated that Sindipeças members should invest around R\$ 1.5 billion in 2016. “This value is 50% smaller than 2014. Although not the desired value, it shows the resilience of the companies,” he stated. “The industry is experiencing an unprecedented moment and many companies are staying along the way, especially tiers 2 and 3,” says Ioschpe.

New model - According to the president of Sindipeças, despite the challenging backdrop, it is already possible to catch a glimpse of better days. According to him, the definition of a new policy for the automotive sector should happen in the first quarter of 2017. “The Inovar-Auto program expires at the end of next year and discussions are already underway to replace this program. I believe that this model has expired. What lies ahead will be different,” he says.

Ioschpe took advantage of the Congress to reveal some details of the new program. According to him, entities such as Anfavea, Sindipeças and Fenabrave, are part of the discussion led by the federal government. “The backbone is already drafted and it will no longer be a regime that emphasizes taxation,” he says. According to him, four fronts will be addressed: security, connectivity, emissions and energy efficiency. “Regardless of the origin of the vehicle, these criteria have to be met. The goal is that vehicles sold here keep pace with global technology.”

The new rules should have a duration of 10 years, with a review after the first five years. “This will be one of the tools to bring the predictability the automotive industry so much desires.”

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Consensus around a 5% growth in the light vehicles market

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Next year should register a small boost in sales of cars and light commercial vehicles in Brazil. Fenabrave's president, Alarico Assumpção Jr., estimates a 5% increase in the number of vehicles licensed next year. The return of consumer confidence, which has already begun showing signs of improvement, should contribute to drive consumers to the dealers.

"It's a good number, despite still representing a drop when compared to this year. The bleeding has stopped. The market will resume growth, mainly through the improvement of the macroeconomic environment, and with a declining Selic. It will take the consumers to the stores," stated Assumpção Jr., in a panel during the second day of the AutoData Outlook 2017 Congress held on Tuesday, 18, at the American Chamber of Commerce in São Paulo.

With a growth of 5%, sales of cars and light commercial vehicles should total around 2.1 million units in 2017. For this year, the federation forecasts the vehicle distribution sector should register sales of 1.99 million light vehicles. According to him, the poor performance of sales in September should not compromise the numbers for 2016. "The daily sales in October returned to the average of the year, around 7.6 thousand cars. In addition, automakers launched models, and this should attract the consumer," Fenabreve's president revealed.

However, to reach the level of 3 million vehicles in sales, according to him, should still take a while. According to him, starting only in 2020 Brazil will be able to register the same market volume of four years ago.

The representative of the distribution sector is more cautious when the subject relates to the truck market. According to him, there should be a "symbolic" increase between 6% and 8% in sales next year. "The growth of GDP drives the truck market. The government's own forecast for next year is for a 1.7% increase, and that could boost sales. Continuing at this rate, the factories can gradually reduce idle capacity and inventories, which are still high," he stated.

The president of Anef, Gilson Carvalho, agreed with Assumpção Jr. He also believes that sales of cars and light commercial vehicles should grow 5% in 2017. "The macroeconomic environment is already showing signs of improvement and that stimulates credit offering", says Carvalho.

In the truck segment, the representative of Anef once again agreed with Fenabreve's president, and is betting on a market growth that, however, should not exceed 10% next year. "The volume has dropped a lot this year. In addition, fleets are stopped at the big transporters, composed of vehicles that were acquired when the funding rate was very attractive. This customer should not go shopping," said the president of Anef. "Now, the fleet owner that must renew his fleet is awaiting the funding rules to become stable. An extremely low rate will not attract them. A Finame with a TJLP (long-term interest rate) is already enough."

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General Motors, the most optimistic

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While Sindipeças estimates a 2.7% increase in vehicle sales in 2017, Fenabrave bets on 5%, and Anfavea talks about a 9% increase, General Motors appears with the most optimistic forecast presented at the AutoData Outlook 2017 Congress, held at the Amcham, in São Paulo, on Tuesday, 18. Barry Engle, Chairman of GM South America, estimates the market should increase between 12% and 14%. “We expect an improvement in the last quarter of this year, and we believe that 2017 will resume a level of 2.4 million vehicles,” he says.

According to the executive, there is evidence that leads to the belief that the resumption will be in the two-digit level. “Consumer confidence has reached its lowest level this year, and in recent months, it has shown recovery. In addition, the government’s economic measures should take effect soon,” he stated.

Engle also says that data such as the average age of the fleet, which has the largest share in the segment of vehicles between 6 and 10 years of age, and the ratio of vehicles per capita, are factors that can contribute to the growth of the market. “In the United States, there are 800 cars per 1000 inhabitants. In Brazil, this rate is 200 per every 1000. There’s a lot of potential,” he says. In addition, he is betting on the historical context to justify the forecast: “In the last three decades, the market has grown an average of 5% per year. This was seen in very few markets around the world,” he says.

GM is working with a market forecast of 3.4 million units in five years, and 4.2 million units in ten years. "It is possible for this to happen before, after all, Brazil has volatility as one of its main features, and that can drive higher increases. The secret is to know how to navigate in this scenario."

The American automaker's recipe for travelling in this unstable market consists of four fronts: maintaining investments, revamping product lines, betting on new technologies, and containing costs. "Between 2013 in 2019 we should invest R\$ 13 billion in Brazil. By the end of the year, we should renew much of the product line. We were the first to bring technologies such as the One Star to the country, and we are living in search of cost cutting with our partners," said the executive.

Exports – Between 2010 and 2015, 95% of vehicles were exported to Argentina and much of the remainder was allocated in South America. Engle said that, in many cases, GM needs to bring vehicles from China, India, Thailand, United States and Mexico to supply neighboring countries. "Oddly enough, it is cheaper to manufacture and transport cars from the other side of the world and bring them to South America, even though Brazil has a 50% of idle capacity," he says.

In addition to the higher labor costs, issues such as productivity and logistics also undermine the accounts. Engle said that in Brazil it takes approximately 50% more to produce a vehicle. "The logistics costs already represent 11.5% of GDP, while in the United States it accounts for only 7.9%."

The executive said that at the beginning of the year, when the dollar was at R\$ 4, GM began a project to export to Colombia, Peru and Chile. "With the current exchange rate, that is no longer attractive. We need to find ways to become more independent of the exchange rate."

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