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## Political scandal spills over into the economy

Startled. That is the reaction of the citizens. The revelations of the leniency deal of the owners of the JBS food company, Joesley and Wesley Batista, caused the biggest shock in recent history of Brazilian politics. The accusations against the President of the Republic, investigated for the crime of obstruction of Justice, immediately shook the reputation of the country, causing a significant jump in the value of the U.S. dollar and the drastic drop in the financial market: the Ibovespa stock market index fell 8.8% and the dollar rose 8.3%, reaching R\$ 3.98. And how is the automotive sector reacting in the face of such circumstances that can complicate the market's recovery of 2017? Investors, executives and associations are asking themselves these, and other, questions: What is the scenario for the Brazilian economy from now on? Will the recovery, which was slowly and gradually taking form, continue?

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# Political scandal spills over into the economy

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Startled. That is the reaction of the citizens. The revelations of the leniency deal of the owners of the JBS food company, Joesley and Wesley Batista, caused the biggest shock in recent history of Brazilian politics. The accusations against the President of the Republic, investigated for the crime of obstruction of Justice, immediately shook the reputation of the country, causing a significant jump in the value of the U.S. dollar and the drastic drop in the financial market: the Ibovespa stock market index fell 8.8% and the dollar rose 8.3%, reaching R\$ 3.98. And how is the automotive sector reacting in the face of such circumstances that can complicate the market's recovery of 2017? Investors, executives and associations are asking themselves these, and other, questions: What is the scenario for the Brazilian economy from now on? Will the recovery, which was slowly and gradually taking form, continue?

JP Morgan downgraded the recommendation of Brazilian stocks to neutral, saying that reforms in the country may be in jeopardy after allegations involving the President in another corruption scandal. Moody's said that the impact of the present crisis reverses the expectation for the GDP to a drop from 2% to 1% growth in 2018.

Abimaq, the Brazilian association of machinery and equipment manufacturers, distributed a note stating that "regardless of the current moment in Brazil, the Legislative branch needs to continue to move ahead with the social security, labor, and tax reforms, as well as provisional measure 774 which deals with the PRT, the Tax Recovery Program, known as the Refis. Brazil needs these reforms. It's time to put Brazil, and the Brazilians, in the first place."

This political turmoil also has reflections in the automotive sector. Fernando Trujillo, consultant at IHS Automotive, said the firm believes that, if the information contained in the JBS leniency deal is true, this should affect consumer confidence and drive down the sales of cars and light commercial vehicles: "The market will come to a halt this year. We don't believe in growth now."

According to him, IHS had been estimating the market would stabilize this year, with sales of 1.997 million cars and light commercial vehicles. This expectation should be revised downwards.

Industry executives also don't believe in market growth this year. One of them, who preferred to remain anonymous, said that consumption tends to feel the impact of more news from Brasília: "We were working with a scenario of increased predictability. Now, we should remain in a waiting mode. New investments can be postponed. We are hostages of these events."

The new industrial policy for the automotive sector, known as Rota 2030, is another concern, according to him: "These scandals may delay the launch of the program. I don't believe it will change direction, because it is country-wide proposal, not of a single government. This is the general consensus. However, it can delay the timeframes that have already been set for leading to its launch."

Another executive, who also chose to remain anonymous, repeated that the estimated stability for this year and a possible recovery in 2018 are at risk: "There were economic indicators that provided support to this expectation."

Now, the recovery looks like it should take a little longer. It is a very complicated moment. I believe that if the impeachment process is introduced once more, it will be the worst of all worlds. The country will stop for another six months. This is terrible for the economy."

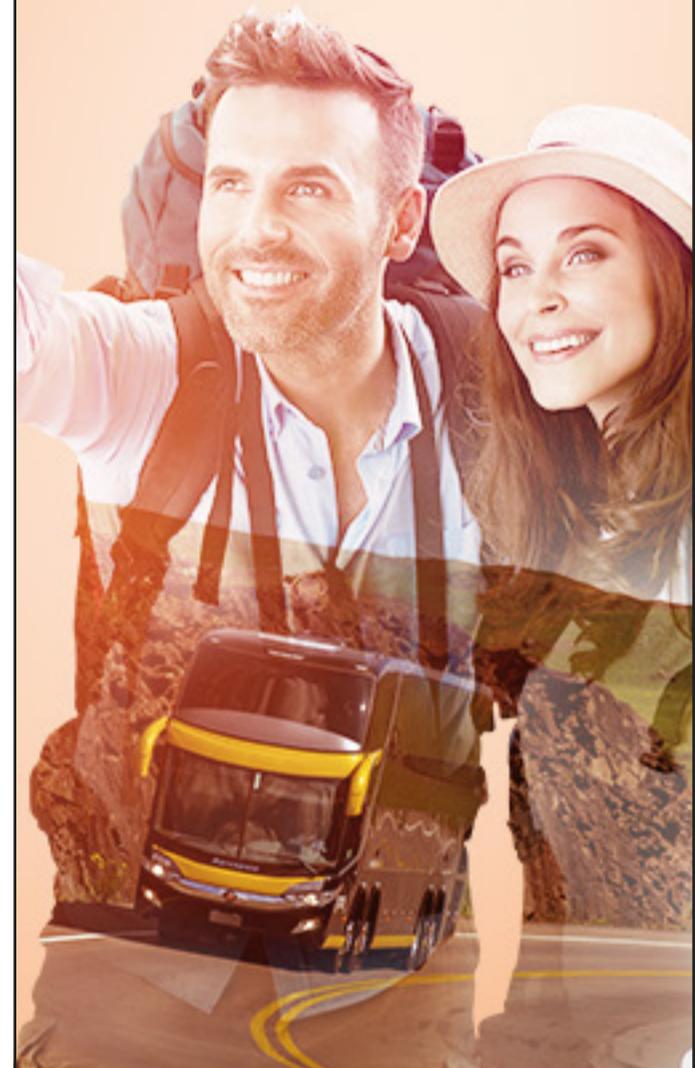
Upon consultation, automotive industry associations preferred to remain silent.

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# Volume of Brazilian vehicles in Colombia increases 55%

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The Colombian market of vehicles decreased by 5% in the first quarter when compared to the same period in 2016: from 77,128 to 73,376 units. Despite the drop, Brazilian vehicles have increased their share of exports to that country, 5,172 units, representing a growth of 55.7% when compared to the first four months in 2016. Brazilian-made vehicles represented a market share of 7.1%, where there is only CKD assembly, becoming the fourth major supplier.

According to data from Andemos, the Colombian association of vehicle producers, total passenger car sales between January and April reached 30,412 units, a drop of 6.8% when compared to the 31,341 units sold during the same period last year. Nissan, Mazda, Ford, Volkswagen, Toyota and Suzuki were the only manufacturers- of the ten bestselling brands in Colombia – to experience sales growth during the period. Volkswagen registered the highest growth ratio, 40.4%, jumping from 2,135 to 2,998 units in 2017.

General Motors was the sales leader in Colombia during the first four months of the year, especially the Spark model, which registered sales of 16,656 units. Although it is the main automotive company in the country, that volume represented a drop of 12.2% when compared to the 18,962 units sold during the same period in 2016. Renault, the second biggest company, sold 14,981 units, 4.3% less than in 2016 – its main product is the Sandero Expression, followed by Logan Expression.

The volume of vehicles assembled in Colombia fell by 14.4%, reaching 24,240 units. The share of vehicles produced in Brazil, on the other hand, increased 55.7% from January to April. The trend indicates that export follow should continue to increase because of the increase in trade relations between the two countries, which intensified with the signing of a free trade agreement in April and should be officially implemented in January.

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# Autoparts: improved activity level.

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The increase in vehicle production in the first months of the year has been a relief for the autoparts companies: according to data from the economic research area at Sindipeças, manufacturers used 62% of their capacity in March. This ratio has not been reached since September 2015. In March of last year, the activity level reached 54%, eight percentage points lower than this year.

According to the association, purchase orders from the vehicle manufacturers in Brazil drove the increased production volume. In March, 234.7 thousand vehicles were produced in the country, a 5.5% increase when compared to the same month last year. Between January and March, vehicle production output totaled 609,084 units, an increase of 24% over the same period last year.

The good performance in March increased sector revenues by 18.03% when compared to the same month last year. Sales to the automakers drove the increase, registering a 39.29% increase. OEM orders accounted for 63.5% of the revenues in March.

Exports recovered significantly in March,

accounting for 15.9% of the month's revenues. According to Sindipeças, the growth can be attributed to the greater stability of the U.S. dollar exchange rate, which has operated for the past four months between R\$ 3.13 and R\$ 3.19. The normalization of relations with Argentina, main export destination, also contributed to the improvement.

During the first quarter, OEM sales increased 35.45%, which had not happened since two years ago. In 2015 and 2016, when compared to the same quarters of the previous years, OEM revenues shrank 22.36% and 23.62%, respectively.

Sindipeças estimates that revenues should reach R\$ 64.8 billion this year, representing a 2.7% increase when compared to the R\$ 63.1 billion registered last year. According to the association's press release, a 68% capacity utilization ratio would be needed to reach such level: "With the capacity utilization in March, it is possible to reach this level. However, it is still not a comfortable level. The ideal would be to work with less than a 30% idle capacity."

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# Banco Paccar closer to becoming a reality

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**D**AF, which sells its trucks in Brazil since 2010, is maintain its plans for the country: to open a bank in 2019 – and the process at the Brazilian Central Bank is at an advanced stage. The company is preparing the bank’s business plan that should be delivered to the CB within the next 30 days. This is the last step before the definitive opening of Banco Paccar.

João Petry, director of financial services at DAF Trucks Brazil, said that Central Bank should issue its decision by December of this year, “and from then on, we would be able to structure the Bank to begin operation in January 2019. During this period, the CB will also audit us to evaluate whether we are fulfilling the business plan. We have been working on this project for the past two years.”

The company will invest R\$ 100 million to open the bank. The resources should be spent on hiring labor, acquiring systems, and forming working capital. The executive said that the Central Bank demanded a five-year business plan: “The Bank should start operating with about twenty employees in Ponta Grossa, state of Paraná, where the DAF plant is located. In five years, we should have 50 employees.”

The bank is one of the steps traced by Paccar, owner of the DAF brand, in Brazil. Petry pointed out that with the opening of the bank, the company will be able to increase sales in the country, “With the market drop, negotiations with retail banks have become more difficult. In addition, those who have a bank can afford some fees that others cannot. It is an additional tool for Brazil.”

According to the director, 60% of the funding in the segment of heavy trucks is provided by

the manufacturers, and the remainder by retail banks. In 2011 and 2012, this relationship was inverted: “Before the credit squeeze, we created an area within DAF to assist the customer by verifying the documents needed for the funding. This helped us to decrease the rate of rejection. Today, the possibility of credit refusal is lower at the banks with which we work.”

Petry said that 50% of the credit requests were rejected, years ago. Today, this ratio is below 30%. DAF has partnerships with Alfa, Bradesco, and Itaú banks.

The executive said that 70% of its sales here are financed, 30% paid in cash, and the remaining 10% by the consortium mode: “As we depend a lot on funding, we have suffered from the lack of our own Bank because it is extra work to find an institution that offers better rates to our customers. Once the bank is operational, we will have more control of the entire business.”

Petry said that Banco Paccar should offer the advantages of closer relationships with the customers, investment in systems to ensure greater agility in the credit approval process, and specialized professionals in the truck segment. He said that, with the operation of the bank, sales financed by DAF in the country should increase by 10% in the first year: “Between 15% and 20% of DAF truck sales will be financed through the bank. In the fifth year of operation, we expect this ratio to reach 30%, 40%.”

Today, DAF sells 80 trucks per month in Brazil. The company expects to sell 1,500 units this year: “In 2019, with the bank in operation, we should license 3,500 trucks in a market of 60,000 units.”

In Brazil, Banco Paccar will working with CDC, Direct consumer Credit, Finame, leasing and inventory financing. In the world, the institution has existed since 1960.

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