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Anfavea now forecasts recovery during the last quarter of 2016

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Predicting how 2016 will close, today, is a mission almost impossible. This is the position of Anfavea, through its president, Luiz Moan, who opened the two-day AutoData Outlook 2016 Congress on Tuesday, 20, at the headquarters of the Federation of Commerce, in downtown São Paulo.

Moan, however, provides a few clues: according to him, the current scenario indicates the recovery of the automotive market should occur during the last quarter of 2016. Previously, he estimated the third quarter as the probable point of return to better sales performance.

During his speech, the president of Anfavea said the crisis is linked fundamentally to the political issue, a “regenerative illness, a cirrhosis, which corrodes the economy.” The solution is “for everyone to start thinking about Brazil and no longer about their personal or party quarrels,” he stated emphatically.

Average daily sales in 2016 should, in the least, remain stable when compared to 2015, according to Moan, who sees the same scenario occurring during the last quarter of this year when compared to the previous quarter. “It is a difficult moment, but the future is very good. When the market returns, we will emerge stronger. We will be more prepared as companies,” he added.

According to him, the market in Brazil should drop 27% in 2015 when compared to last year, which represents a total loss in revenues of R\$ 16 billion to the federal government, that is, “half of what is intended to be collected with the return of the CPMF.” Moan added that he believes part of the drop this year is linked to a pre-buy phenomenon that took place between October

and December last year, when a reduced IPI level was in place.”

He added the association of vehicle manufacturers is working with the estimate at the Brazilian market may reached a volume of 7 million units in sales per year “in the medium term.”

He revealed that a Brazilian commercial delegation, which Anfavea will be a part of, should go to Iran next week to search for new commercial agreements, including in the automotive sector. The expectation with Colombia, which just recently closed a deal with Brazil, is for shipments to start already this year, stated Moan. “There are already vehicle manufacturers preparing themselves for this.”

Moan added that he does not see the threat of Brazil no longer being part of the top 10 vehicle producing countries in the world. “The country’s growth is unique and does not compare to other countries in the list, which is what matters the most.” **WE**



Luiz Moan

Paulo Butori: autoparts should grow 2% next year.

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Paulo Butori was one of the few, very few, to present positive projections for next year, during the second day of the AutoData Outlook 2016 Congress, which took place at the Federation of Commerce in downtown São Paulo on Wednesday, 21. In previous congresses, he usually delivered

pessimistic projections, especially for the autoparts segment.

This time, it was different: the president of Sindipeças estimates that total revenue of automotive parts manufacturers in Brazil should register a growth of 2% when compared to 2015, driven especially by

exports and the aftermarket market, with the addition of a slight increase in OEM sales.

Butori, however, emphasized this estimated growth ratio is linked considerably to a very low base of comparison in 2015 than an actual clear business recovery trend. He believes that “2016 will be slightly better than 2015. I have been more pessimistic, but I believe that times are improving.”

The base of the Sindipeças projection at the event highlights the truck segment, which should register an 18% growth and production, reaching a total of 82.5 thousand units. Production of agricultural machinery, according to Sindipeças, should also register a growth of 2%.

Butori also estimated the US dollar exchange rate at December 2016 should close at R\$ 4.59, “perhaps even reaching R\$ 5.00.” As a result, exports should grow, as well as the local content ratio of automotive parts, since “this exchange rate does not make importing a good business.”

But he estimated that the scenario should become clearer for new projects of production in

Brazil, since “local content processes significantly take into account the product’s lifecycle.” A regular critic of the automotive regime, he added that the increased production trend for autoparts in the country “is due to the increase in the value of the US dollar, not to the Inovar-Auto program.” However, that is where the good news ends. The president of Sindipeças alerted that the financial health of the tier 2 and 3 companies is “very delicate.” According to his calculations, 14 companies in these segments close down in Brazil last year, and another 17 during the first semester of this year alone. In addition, “dismissals will still take place (at the auto parts companies),” despite having already cut 56,000 job positions since 2013. The industry’s workforce currently stands at 164,000 workers.

According to him, this is because many companies do not have the resources available to dismiss the workers. “The cost of dismissal is enormous, it de-capitalizes the company.” With slight increases in revenues next year, this process should continue, despite the PPE, with the automotive parts industry being its major user, stated Paulo Butori.



According to GM, 2016 should register a market of 2 million units

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Unlike his counterparts in the automotive industry, which expect 2015 to be similar to 2016, Carlos Zarlenga, CFO at General Motors, estimated an even bigger deterioration of the sector, with a drop in sales of 20% next year, representing total sales of 2 million passenger and light commercial vehicles. The executive participated in the second day of the AutoData Outlook 2016 Congress at the Federation of Commerce in downtown São Paulo.

“We are basing our planning on this volume and I believe it is sensible and responsible. Next year should continue like the last quarter of 2015. We should only see improvement in the 12-month sales volume during the second semester of next year.”

Zarlenga based his calculations on the 12-month volumes, “and they were all negative. The only good

thing is that during the year we worked on efficiency in order to be ready for recovery, which should occur sometime between 2017 and 2019.”

Regardless of the negative projection for next year, one of his major short-term concerns is the low production capacity usage in the industry while costs continue to increase.

“The dollar has already been quoted at R\$ 4.00, labor increased 11%, the IPCA increased 10%, logistical costs increased 9%, and production dropped 18%. Currently, the industry’s production capacity usage is at 50%, which means adjustments are still needed in inventory, also because the price of the vehicles during the period did not increase enough to offset the costs.”

The executive said that between 2012 and 2015, the industry’s profitability dropped 12.5 percentage points when compared to the first semesters of each year. “This is not sustainable in the future.”

Zarlenga, however, despite the momentary difficulties, still believes the automotive market is particularly positive when looked at from the long term perspective. According to him, during the past 30 years, the industry installed in Brazil grew at an average annual rate of 5%.

“This scenario is not available anywhere else in the world. The long-term growth still is here and it is still attractive, and it will happen.”

WE





Golfarb says industry has still not made all of the necessary adjustments

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The vice president of Ford Latin America, Rogélio Golfarb, emphatically stated the automotive industry has not yet done all of the necessary adjustments to production volumes. “Despite all of the effort and the implementation of mechanisms such as layoffs, collective vacation leaves, leave with pay, and

PPE, the result has not been enough. Inventories remain very high,” he stated. The executive participated in the second day of the AutoData Outlook 2016 Congress at the Federation of Commerce in downtown São Paulo, on Wednesday, 21.

Golfarb said sales are systematically dropping,

forcing inventories. “Despite the dramatic cuts, they have not been sufficient. The automotive sector is still producing more than it should. We have room for more production cuts.”

He added that costs to maintain inventories are high, not only for the vehicle manufacturers, but for the dealers as well. “Inventory of finished products is especially expensive. Many companies are taking on loans in the market, even at very high interest rates, because they need cash to pay fixed costs, while they deal with full lots.”

In the case of Ford, according to Golfarb, this situation is slightly better than the market average. “We are cautious with the capacity issue. In positive moments, we’ve and suffer from our conservative nature.” He added the company made production adjustments and part of the process is conducted only on closed sales deals. “We constantly monitor the inventory at the dealers. But we cannot say that we will not have to make new adjustments again.”

During his presentation, the executive said the current scenario is atypical, with vehicle manufacturers losing approximately 1.1 million units in sales when compared to 2014, closing the year with approximately 2.5 million vehicles in sales volume. “Production should shrink 1 million units, reaching 2.4 million units this year. We are adding new level.”

According to him, the automotive industry’s revenues this year should drop 26.7% when compared to 2014. “We will go from R\$ 156.7 billion two R\$ 114.8 billion.” As a result, profit remittances from the vehicle manufacturers should also be affected: “Last year, these were valued at US\$ 3.7 billion. This year, it should not be more than US\$ 100 million.”

As remittances drop, loans from headquarters increase: this year, according to Golfarb, US\$ 3.3 billion should be sent into the country to help companies close their accounts. “Last year, this value totaled US\$



700,000, that is, an increase of 371%. It is not only about a drop in profits, it is more serious than that. There is no money for fixed costs.”

He also spoke about the “new reality of the market”: from the estimated sales volume of 2.5 million units for 2015, he calculates that the biggest volume vehicle manufacturers should account for sales of 1.187 million units, while the emerging manufacturers - basically from Asia - should account for 787,000 units, and the remainder should account for a 551,000 units. “Both extremities should lose market.”

He says this is due to the fact that the vehicle manufacturers such as Honda, Toyota, and Hyundai “do not carry problems of the past, such as old labor issues. In addition, they have newer production facilities and a mix of vehicles with higher margins. The level of internal competition increased dramatically, and this has come to stay.”

According to him, the economic and political difficulties faced by Brazil are temporary in nature. “What we’re seeing now is not the real Brazil. Brazil is condemned to grow, and we will return to this moment.”

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New vehicle purchase intention is on the rise

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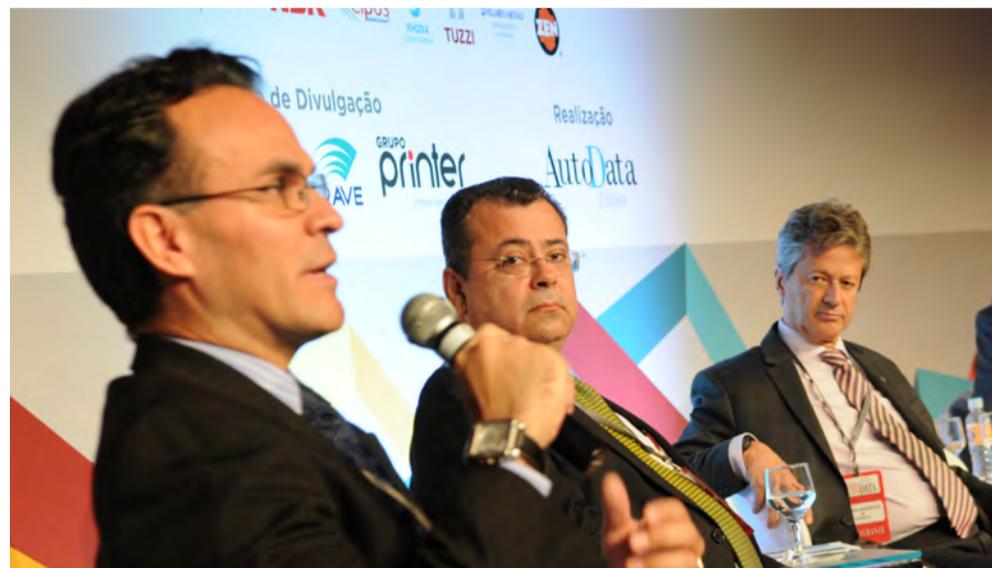
A study conducted by Ipsos Brazil, exclusively divulged on Wednesday morning, 21, the second day of the AutoData Outlook 2016 Congress, which took place at the Federation of Commerce in São Paulo, indicates that during the past four months, new vehicle purchase intention by Brazilian consumers increased.

A graph presented by Rogério Monteiro, head of the automotive practice at the research and market intelligence company, based on a monthly survey with 1.2 thousand persons from a number of regions in Brazil, shows the advance in this intention, which can generate additional purchasing volume in the coming months - the series indicates an increasing trend.

“Consumer appetite is coming back, but he continues to be afraid. We need to force, through promotions, in order to overcome this barrier.”

The information was well received by Alarico Assumpção Jr, president of Fenabrave, and Gilson Carvalho, vice president of Anef, who were also part of the same panel with Monteiro, discussing Trends. Carvalho, however, who represents the financial institutions that belonged to the vehicle manufacturers, added it does not make sense to increase demand through financing.

“I received this information with surprise. Banks have become more cautious during the past years, with less credit approvals and improved quality credit, but the demand for new contracts is not increased.”



Assumpção Jr, independent of the study, brought optimistic projections to the panel. According to the president of Fenabrave, a slight increase in sales in 2016, when compared to 2015, is still possible. “The agricultural machinery and truck segments should drive this growth, which is expected to start sometime during the second quarter, due to the harvest season forecast. Sales of automobiles should increase between 3% and 5%.”

This increase in volume, however, shall not be enough to recover the drop that will take place in 2015, which should affect the dealer networks. According to him, 776 dealers in the country closed down since January, when compared to the opening of 403 new stores. By the end of the year, he estimates 1000 dealers will have shut down, which should represent the loss of 17,000 jobs in the segment. WE

Fraud in Volkswagen engines also involves Brazil

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In a statement divulged on Wednesday afternoon, 21, Volkswagen Brazil informed it will call Brazilian consumers of the Amarok 2011 model year pick-up - and some of the model year 2012 units - to replace the EA189 diesel engine command unit's software - the engine involved in the fraud that involved more than 11 million vehicles throughout the world for adulterations in the emissions tests results.

As a result, the case has definitely arrived in

Latin America, since the Amarok, which is produced in Argentina, is shipped to many markets in the region - some units have even been shipped to Europe. The engine was developed and produced by Volkswagen in Germany.

According to the vehicle manufacturer's press release, the software "can optimize the results of NOx emissions during laboratory tests." According to VW, investigations in Germany are verifying the influence of the program on the meeting of emissions limits. "Technically, the application of the software does not affect safety or the functionality of the vehicle."

Some of the Amarok model year 2012 and the other models produced as of 2013 are not affected by this software, as well as the other vehicles in the brand's portfolio in the country, which are equipped with gasoline and flex engines, according to the company.

Consumers will receive letters informing them about the recall starting sometime during the first quarter of next year, since the software update is still under development at the company's headquarters in Wolfsburg, Germany. **WE**