

# AutoData

## NEWS AGENCY WEEKLY EDITION

**Edition**  
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Weekly Brazilian automotive industry news | 2.6 to 2.11.2017 Year XII

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## Argentina benefits autoparts, may not be so good for the Mercosul.

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# Argentina benefits autoparts, may not be so good for the Mercosul.

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**T**he new legislation to stimulate the automotive industry in Argentina has taken away the sleep of automotive executives here in Brazil. That's because, according to the new rule, the government of that country will give tax breaks for purchases of products produced locally. This discount could reach 15%, if the local content of cars manufactured in Argentina reaches 50%. Today, the local content ratio is between 35% and 40% for the pickups and 35% for cars.

Gonzalo Dalmaso, an expert in the automotive industry of Argentina, said that the intention of the President of the country is to reduce production costs when compared to those in Brazil. According to him, a part made in Argentine units is 35% more expensive than the same part produced here: "The measure will offset this imbalance, and it could eventually stimulate the automotive industry in Argentina."

Antônio Megale, President of Anfavea, defends symmetry of postures:

“I understand the legitimacy of any measure to encourage the auto parts industry in Argentina, which was scrapped in recent years. But, I think that, for the good of the automotive agreement, the components manufactured in Brazil must have the same tax treatment.”

Argentina is currently the largest trading partner of Brazilian autoparts, responsible for 28% of foreign sales. Last year, US\$ 1.084 billion were exported to the manufacturers and systems suppliers installed in that country, according to the Sindipeças. This volume was 25% lower in comparison with 2015 due to the drop in vehicle sales of the Brazilian and Argentine markets.

Marcos Zavanella, President of Schaeffler South America, said that sales of vehicles in the Argentinean market alone couldn't support a more robust investment in the productive unit. According to him, at first, the company is applying resources to increase the capacity of parts inventory in the local office and in logistics:

“If the sector is strengthened with these measures and we can have a clear signal of the government's policy, we can think about investments, but it's still very early. In fact, companies should not transfer there all their product lines because the volume is low.”

Argentina is the company's second largest aftermarket market in South America. The company's operation in the country focuses on aftermarket products, stated the company's General Manager in Argentina, Carlos Gyorgy, who did not reveal the volume exported by the Brazilian operation to that country:

“Since 2014, we have been exempted from import tax because of the automotive agreement.”

According to Leticia Costa, partner at Prada Advisory, the new legislation, generally speaking, is harmful to the automotive industry in the Mercosul since it would not encourage the improvement in competitiveness of the region:

“Any measure that prioritizes one side only can be charged by the other side later on. Brazil did this the Inovar-Auto program and we did not see the improvement of Brazilian competitiveness in recent years. Investments in the autoparts sector in Argentina will depend on the individual company strategies, but there is no scale. The segment will never be strong in Argentina.”

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# Imported brands experience drop in sales of almost 50%

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Despite the beginning of the year being a traditionally weak period for sales of imported brands, performance was still a source of concern. The eighteen member brands of Abeifa, Brazilian Association of Importers and Manufacturers of Automotive Vehicles, registered sales of 1945 units in January, representing a drop of 47% when compared to the same month in 2016.

When compared to December, January's volume represented a 41.7% drop, according to the association. Considering the total volume of vehicles licensed in Brazil in January, 143,582 units, imports accounted for only 1.35% of the total.

According to Jose Luiz Gandini, President of Abeifa, "The first few months of the year are, historically, very weak. However, in the case of imported vehicles, the low sales volume is of concern, especially since we are restricted by the quota system, up to a limit of 4800 units per year, without the 30 additional percentage points."

Abeifa members with production in the country - BMW, Chery, Land Rover, Mini and Suzuki - sold 973 units in January, a 33.9% drop when compared to the previous month. When compared to January 2016, 634 units were licensed, there was an increase of 53.5%. **WE**



Antônio Megale

# Vehicle production up 17.1% in January

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The automotive industry is starting the year with some additional breathing room. Although January sales were the worst for the month since 2006, with 147,600 units, representing a drop of 5.2% in comparison to the same month in 2016, the output of manufacturers installed here grew by 17.1% when compared to January of last year. Production totaled 174,100 units, against 148,700

vehicles manufactured in January of last year.

According to Antônio Megale, President of Anfavea, the association of automotive vehicle manufacturers, companies are betting on a market recovery already in the first quarter of the year and accelerated the rate of production to supply the dealers:

“The pace of the drop in sales has been decreasing monthly, although it has not yet stabilized. We believe that should happen by March.”

In January, vehicle inventory closed at 186,400 units, which is equivalent to 38 days of sales. The volume included 51,400 units at the patios of the automakers, an increase of 17.8% when compared to December, when the turnover was 42,200 units in the industry. At the dealers, there are 135,000 vehicles in stock. At the end of last year that volume was 134,000 units.

Anfavea estimates production this year should increase 11.9%, reaching 2.41 million vehicles. The



number of new vehicles licensed is expected to reach 2.13 million units this year, an increase of 4%.

“There are economic indicators that support this estimate,” said Megale. “Inflation and the declining interest rate stimulate the market. Banks are more likely to release credit and that directly impacts the business.”

According to economists consulted by the Central Bank, expectations for inflation this year approached the center of the target. The projection for the IPCA this year, according to the Focus Bulletin, published on Monday, fell 0.06 percentage points and should reach 4.64%. With respect to the Selic, economists believe the basic interest rate should close at 9.50% in 2017, and 9% in 2018. The Selic rate is currently at 13% per year.

This more positive scenario stimulated credit offering, according to Anfavea. In January, 54.5% of sales were financed. In November of last year, this ratio was 50.3%, the worst for the industry. Historically, loans account between 60% and 65% of new vehicle sales in the country.

“The declining default rates make banks release more credit, although there is a greater rigor at the time of the financial transaction. But we are already seeing the recovery of confidence.”

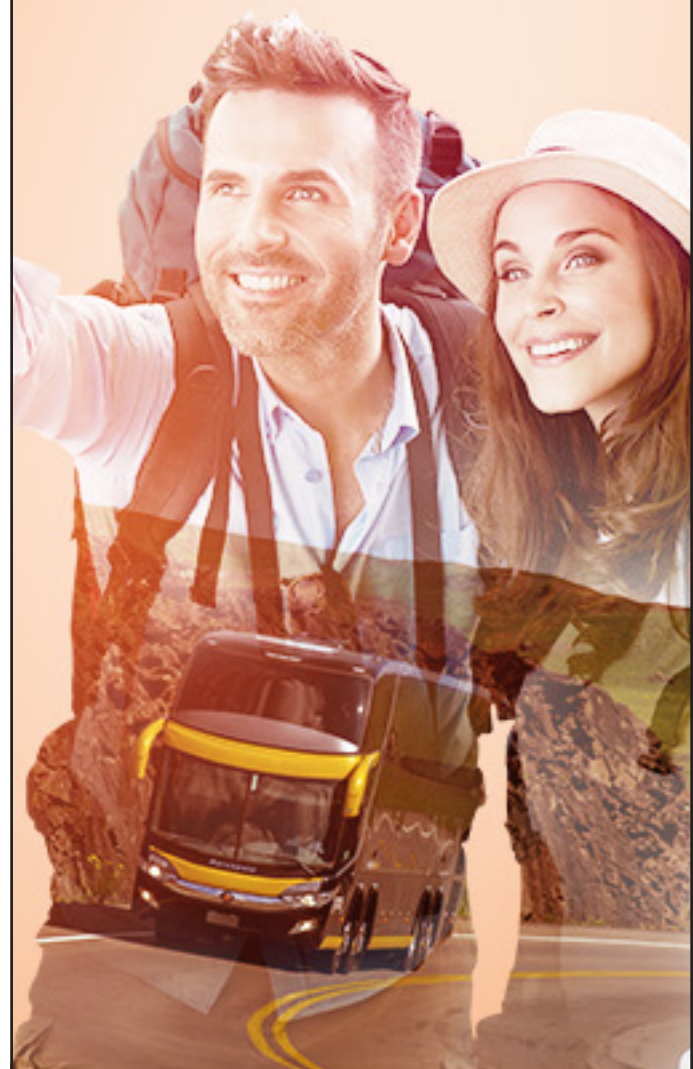
Employment - The manufacturers closed January with a workforce of 121,100 employees, equivalent to December of last year. According to Megale, 10,351 people are in flexible production programs – 1,672 employees are on layoff and 8,679 workers are on the EPP, Employment Protection Program: “In our sector, there is certain job stability, also a positive sign that shows the market’s recovery.”

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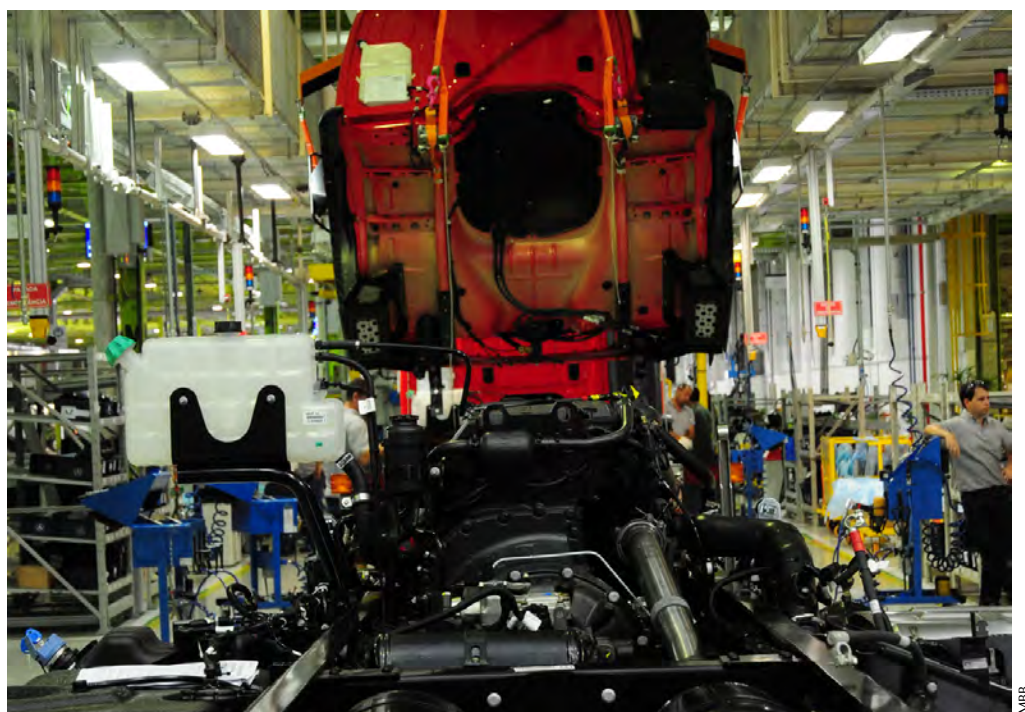
# Sales of heavy vehicles continue at low levels while truck production increases

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Sales of trucks in the domestic market started January with a dramatic result: only 2,947 units licensed, according to Anfavea, the National Association of Automotive Vehicle Manufacturers. According to Marco Saltini, Anfavea Vice President and Director of MAN Latin America, “this was the worst result since 1997, when sales totaled 2,800 trucks.”

In comparison with the first month of 2016, when sales totaled 4,416 units, there was a 33.3% drop in volume.

According to Saltini, “the performance reflects the continued difficult situation of the end of last year, but the expectation is that this year there will be a more stable scenario and, starting during the last quarter, it should be able to register growth.”



Antônio Megale, President of Anfavea, endorses the chorus: “Economic indicators show that there are important features for the recovery of the market, such as the reduction in interest rates, the drop in loan defaults and a more flexible stance of banks for granting the loans.”

Despite this poor performance, production output continues to grow. A total of 4,482



units were manufactured in January of this year, against 4,158 produced in the same month of 2016, representing an increase of 7.8%.

The increase is related to the performance of exports. In January, the Brazilian subsidiaries of truck manufacturers shipped 1.65 thousand units abroad, representing an increase of 26.5% when compared to the 842 units exported during the same month of 2016.

The heavy trucks segment showed the biggest increase, with shipments totaling 452 units in January, representing an increase of 53.2% when compared to the 295 units exported in the first month of 2016. In the semi-heavy trucks segment, the increase in export volume was 22.7%, while the medium-sized segment registered an increase of 44.2% and the light trucks segment registered a growth of 1.4%. Only the semi-light trucks segment, which includes trucks in the range of 3.5 to 6 t gross weight, registered a negative performance, closing down 48.5%.

Buses - The bus segment also suffered a drop in the volume of chassis licensing in January. Anfavea numbers show a 51.2% reduction in comparison to January 2016, when 1,033 thousand units were sold. For this segment, export performance was not enough to avoid the drop in production volume. In the first month of 2017, 388 bus chassis were shipped abroad, when compared to 322 units in January 2016, representing an increase of 20.5%. Production, however, dropped 9.1%: 1,069 units in January 2017, against 1,176 in January 2016.

According to Marco Saltini, "the bus industry will continue in a difficult situation in 2017, but not worse than last year, when performance was also worsened, especially in the urban segment, because of municipal elections."

Another factor that can impact and generate some positive movement for domestic sales of chassis is the Refrota 2017, the urban bus fleet renewal program. It is estimated the program will encourage players to acquire new buses. A total of R\$ 3 billion should be made available for this purpose: "The expectation is that this will have some effect on the recovery of the market." **WE**