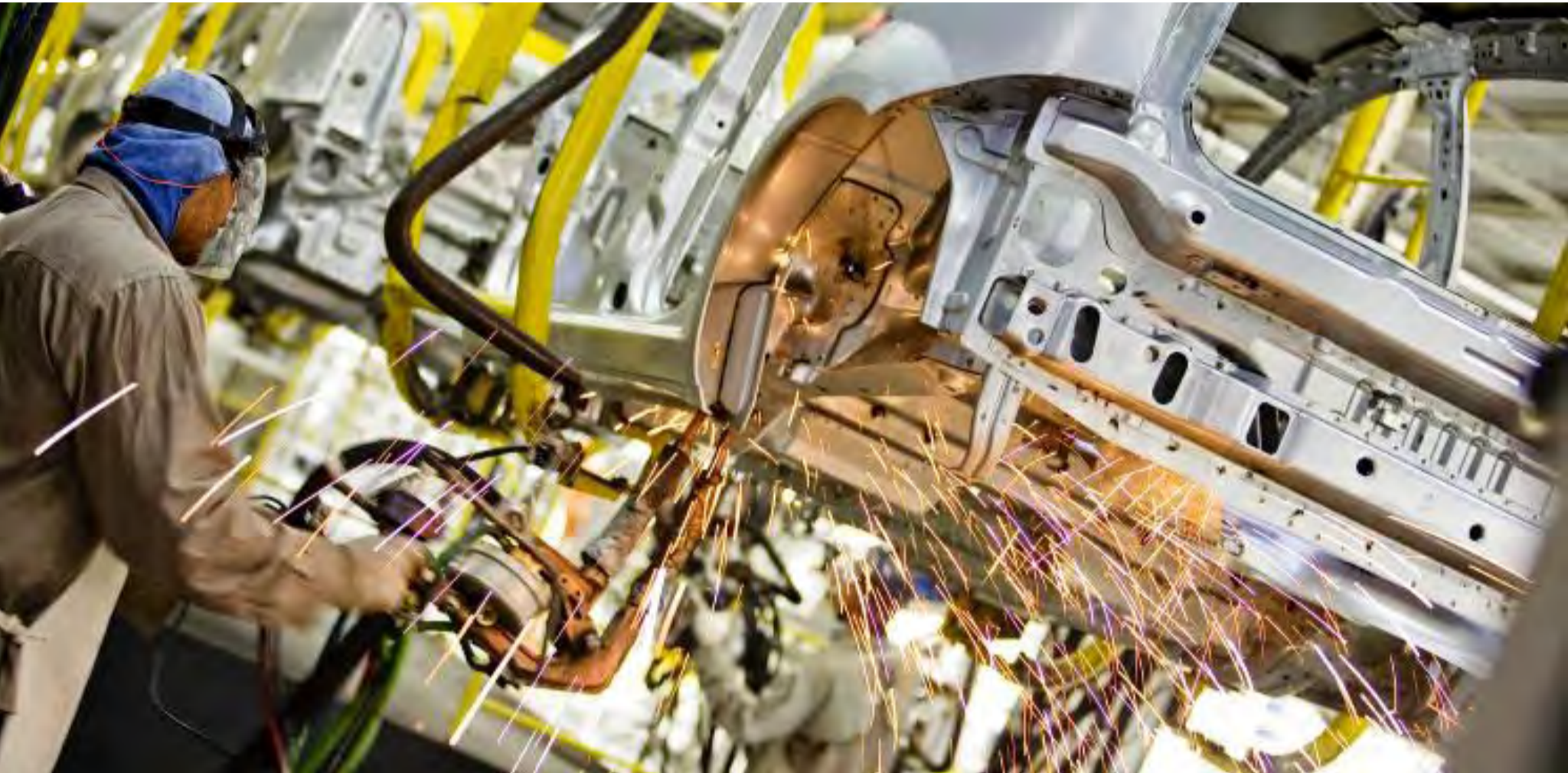


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Weekly Brazilian automotive industry news | 02.29 to 03.04.2016 Year XIII



Brazil to use half of its installed capacity in 2016, calculates Anfavea

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Brazil to use half of its installed capacity in 2016, calculates Anfavea

Marcos Rozen | rozen@autodata.com.br

The Brazilian vehicle industry should use only half of its installed capacity in 2016. The conclusion belongs to a study conducted by Anfavea, which was presented by the president of the association, Luiz Moan, on Friday, 4, in São Paulo.

According to the study, the country has an installed vehicle production capacity of 5 million and 50,000 units per year, including all of the production facilities - passenger and light commercial vehicles, trucks, and buses - ready to operate up to February of this year. The calculations therefore do not include the future automobile units belonging to Mercedes-Benz and Jaguar Land Rover, which should be inaugurated in the coming weeks.

Production forecast for 2016 calls for 2,440,000 units, and, if achieved, this would represent a capacity utilization ratio of 48%, against an idle capacity of 52%.

Light vehicles production capacity stands at 4,630,000 units, while production this year is forecast to reach 2,330,000 units, therefore, half, according to the study.

Regarding commercial vehicles - trucks and buses - the situation is a lot more critical: while the industry can produce up to 422,000 units this year, production should reach only 108,000 units, that is, a capacity utilization ratio of 26%, against an idle capacity of 74%.

Agricultural and construction machinery manufacturers, according to the study, have an installed capacity of 109,000 units per year, while production for 2016 is estimated to reach 56.6 thousand units, that is, a utilization ratio of 52%, against an idle capacity of 48%.

The capacity ratios, according to Moan, refer to the production output at maximum, that is, with operations on three shifts.

During the first two months of this year, according to the president of Anfavea, the capacity utilization ratios were a lot more retracted. Overall, vehicles production utilization ratio during the period stood at 36%, with light vehicle production closing at 38% and commercial vehicles production utilization closing at a low 19%. **WE**



Production during the first two months of the year is the lowest since 2002

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The 281.4 thousand passenger and light commercial vehicles, trucks, and bus chassis produced in Brazil in January and February of this year represent the lowest production volume for the first two months of the year since 2003, according to figures divulged by Anfavea on Friday, 4. That year, production during the first two months totaled 273.3 thousand vehicles.

Year to date, production registered a drop of 31.6% when compared to the same period last year. Lower production occurred due to the need to reduce the level of inventories, according to the president of Anfavea, Luiz Moan: "This movement is done in line with the adjustment of production. It should still continue for at least another two months, since inventories are at quite high levels."

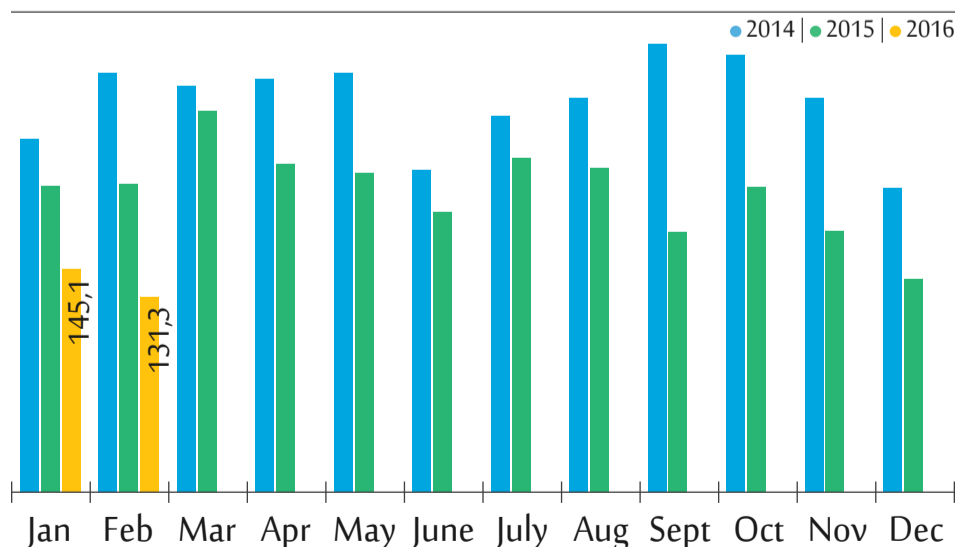
In February, 131.3 thousand vehicles were produced, representing a drop of 36.4% when compared to the same month last year, and a drop of 12.5% when compared to January. This was the lowest volume for the month of February since 2002, when industry produced 116,000 vehicles during the second month of the year.

The last time production volume was lower occurred in December 2008, when the industry delivered 91.3 thousand vehicles. This occurred slightly after the explosion of the global economic crisis: sales dropped, industry remained with high inventories and put its workers on vacation in December.

Such a low volume also caused the first of a series of reductions in the IOF and IPI tariff rates for brand new vehicles.

During the past 12 months, production has

Production - Monthly (thousand units)



totaled 2.3 million vehicles, a drop of 24.4% when compared to the immediately preceding 12-month period. The rhythm needs to increase in order to reach Anfavea’s production forecast for the year, which calls for 2.4 million units - in line with last year’s volume.

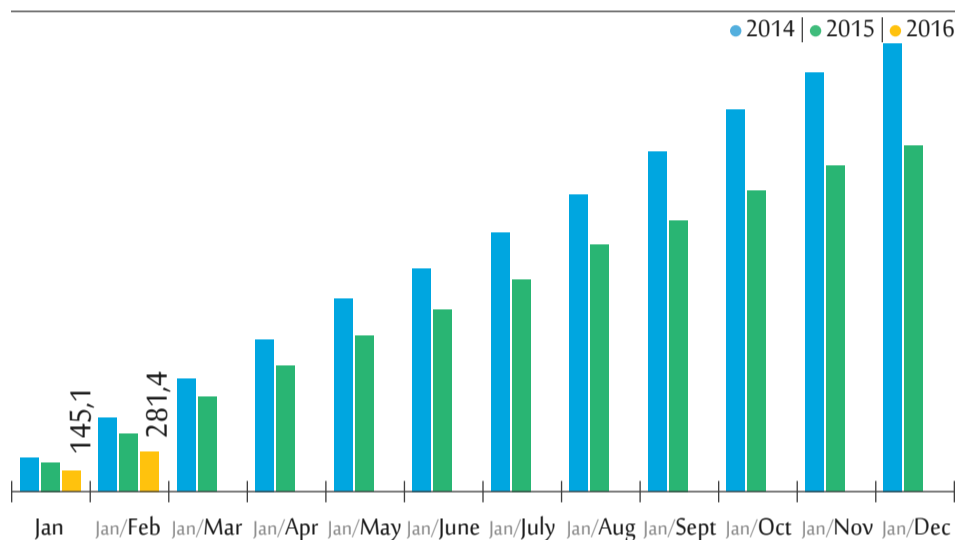
February was not only a month of bad news. The industry registered, for the first time since October 2013, a surplus in the number of jobs: 900 jobs were created. However, according to Moan, this was an isolated case: a vehicle manufacturer hired, at once, 2000 outsourced workers, which inflated the ratio.

“Since there is a positive result of 900 jobs, you can say industry cut 1.1 thousand workers last month. The difference comes from these hirings.”

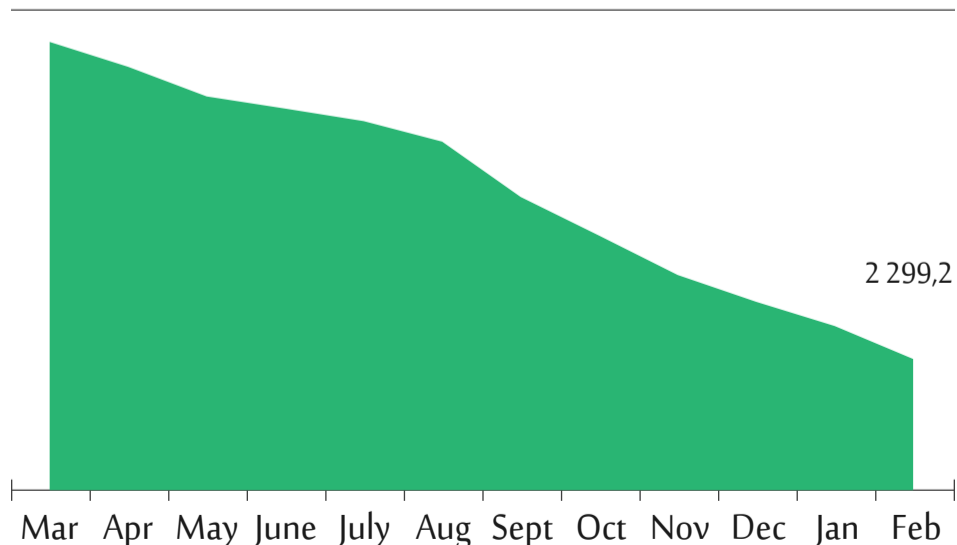
Efforts continue, however, to maintain the workforce at 130.3 thousand workers. At the end of February, 7.3 thousand workers were on layoff, and 29.1 thousand were in the PPE, representing a total of 36.4 thousand workers with some type of work restriction - either at home, in the case of those on layoff, or working fewer hours, in the case of those that are on the PPE program.

“In March, an additional 1.8 thousand workers will be on layoff. Therefore, this represents a total of 38.2 thousand workers with some type of work restriction.” WE

Production - Year-to-date (thousand units)



Production - 12-month periods (thousand units)



Anfavea celebrates average daily sales increase in February

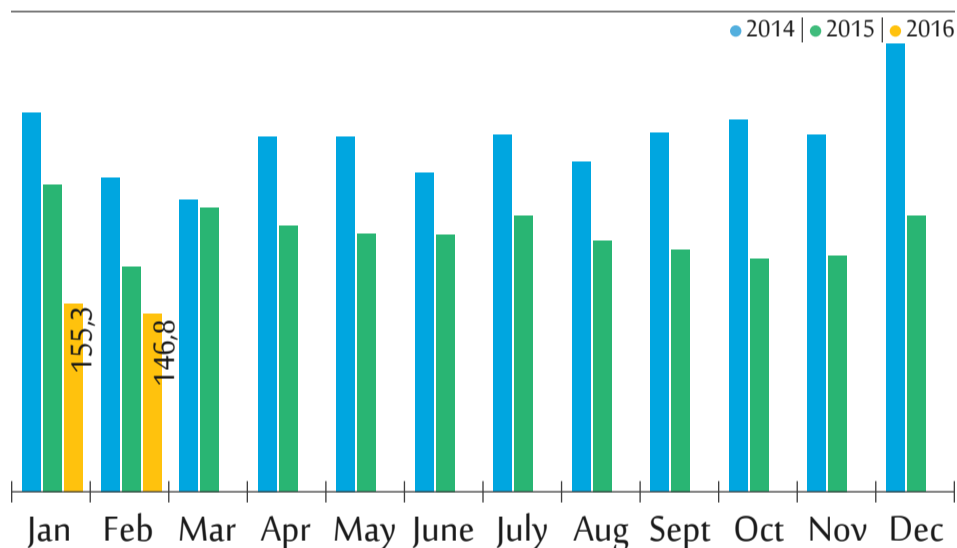
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Luiz Moan, president of Anfavea, found good news amidst the domestic sales figures in February: average daily sales, when compared to January, registered an increase of 5%, that is, 8.1 thousand units when compared to 7.7 thousand units registered during the 1st month of the year. However, it is important to observe in this calculation that Anfavea eliminated Carnival Monday and Tuesday, as well as Ash Wednesday from the calculations. Therefore, it took into account 18 working days, when compared to 20 working days in January.

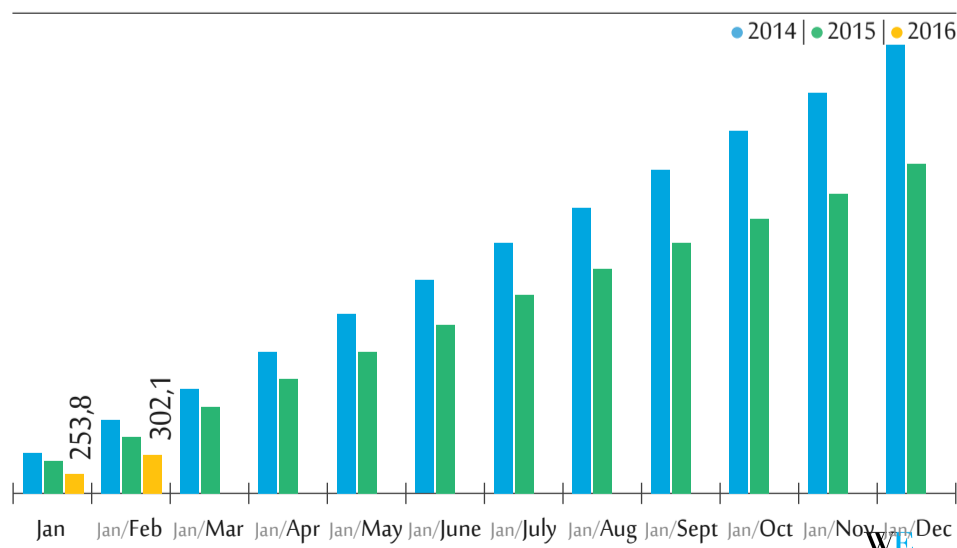
Overall, the number of new vehicles licensed in February totaled 146.8 thousand units, which represents a big drop of 21% when compared to the same month last year, which also had Carnival, with 186,000 units, and a drop of 5.5% when compared to January of this year, which registered 165.3 thousand units licensed.

During the first two months of the year, sales in Brazil dropped 31.3% when compared to the same period last year, with 302.1 thousand units licensed, against 439.7

License registrations - Monthly (thousand units)



License registrations - Year to date (thousand units)



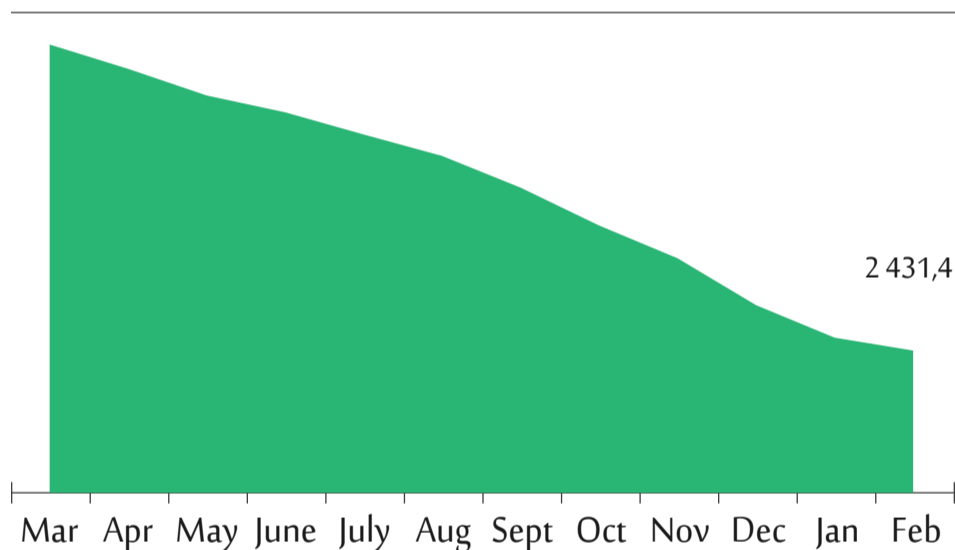
thousand units licensed during the first two months of 2015.

According to Moan, despite the representative ratio of the first two months, the result remained “within the estimates and translate an expectation of maintaining ourselves within the year’s estimates” - of a 7.5% drop. The difference is justified by the beginning of the year having been fueled by a market with lower prices thanks to inventories of vehicles with reduced IPI tariff, which officially ended in December 2014, with an effect that was gradually diluted throughout the following year.

The president of Anfavea, however, emphasized that commercial vehicles represent an exception to this scenario. “It is a segment that is being punished significantly due to the low confidence of the investor.” According to Luiz Carlos Moraes, vice president of the association, this is “the biggest crisis ever experienced by the segment in its history.”

During the past 12 months, from March 2015 to February 2016, the total number of vehicles licensed in Brazil was 2.43 million units, a drop of 27.8% when compared to the 3.37 million units licensed during the immediately preceding 12-month period.

License registrations - 12-month period (thousand units)



Another good news in February is that inventories finally began dropping. They closed the month with the equivalent of 46 days of sales, with 34 days at the dealers, and 12 days at the plants, which is equivalent to 241 thousand units, divided into 181 thousand units and 60 thousand units, respectively. In January, inventories closed that the equivalent of 51 days, with 36 days at the dealers and 15 days at the manufacturers, representing 262 thousand vehicles, including 187,000 units at the dealers and 75,000 units at the manufacturers.

WE

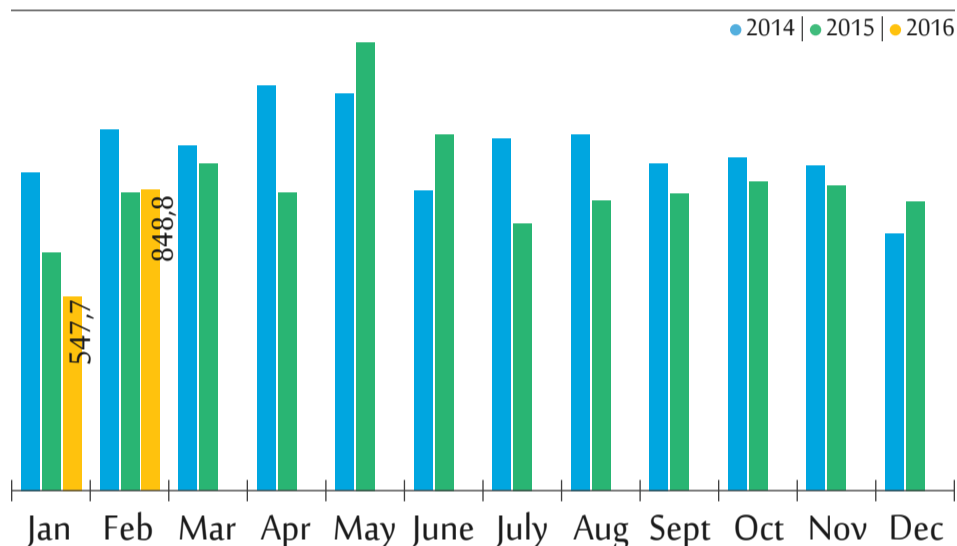
Iran wants to acquire Brazilian vehicles

Alzira Rodrigues | alzira@autodata.com.br

The president of Anfavea, Luiz Moan, revealed on Friday, 4, that Brazilian vehicle manufacturers are going to participate in a bid to offer passenger vehicles, trucks, and buses to Iran. “We participated in a commercial mission in October and the outlook for closing export contracts with that country is positive. We already have ten members that are interested in selling to them.”

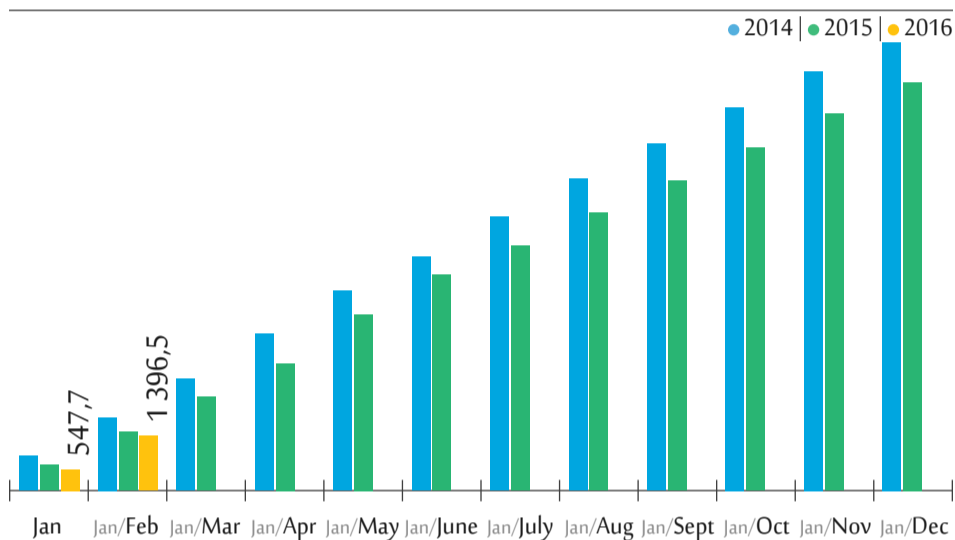
According to Moan, Iran is interested in acquiring 145 thousand passenger

Exports - Monthly (US\$ million)



Image/Archive

Exports - Year to date (US\$ million)



vehicles, 65 thousand trucks, and 17 thousand buses. After the mission, which involved government and industries from different sectors, negotiations are being made directly by the companies interested in the sales.

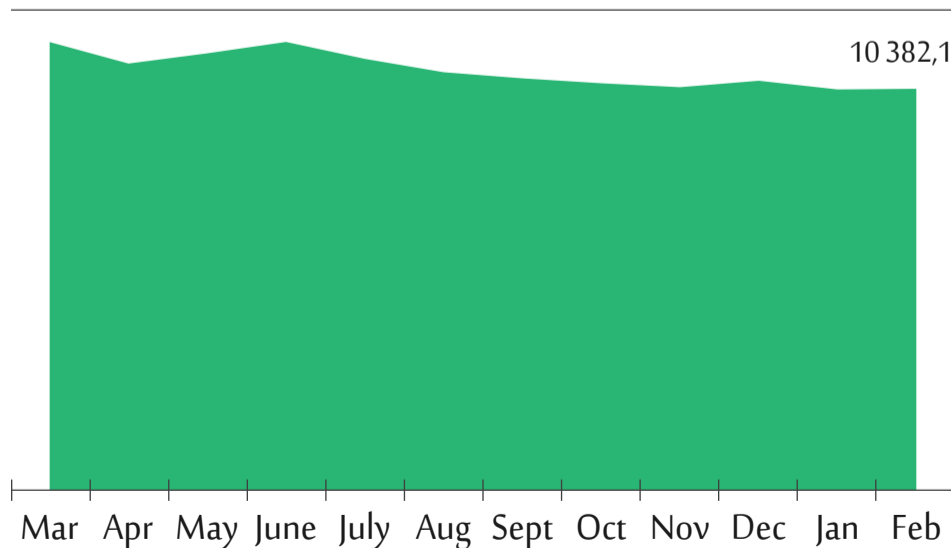
The president of Anfavea revealed Iran’s interest in acquiring Brazilian vehicles during the monthly press conference in which he spoke about the results of the first two months of the year, which were positive only in exports. The industry exported 36.4 thousand vehicles in February, representing an increase of 53.1% when compared to January, when shipments totaled 23.8 thousand units, and an increase of 16.7% when compared to the same month in 2014, with 31.2 thousand units.

During the first two months, 60.3 thousand vehicles were shipped abroad, representing an increase of 26.8% when

compared to 47.5 thousand units exported during the first two months of last year. Revenues from exports totaled US\$ 848.8 million in February, representing an increase of 55% when compared to January, and an increase of 1.1% when compared to the same month in 2015.

During the first two months of the year, export revenues totaled US\$ 1.396 billion, representing a drop of 7.5% when compared to the US\$ 1.5 billion shipped abroad during the first two months of last year. The drop in revenues, according to Moan, reflects the mix of products exported, since agricultural and road machinery shipments during the period registered a drop, from 1381 units shipped abroad during the first two months of 2015, to 832 units shipped abroad this year, representing a drop of 39.8%. WE

Exports - 12-month period (US\$ million)



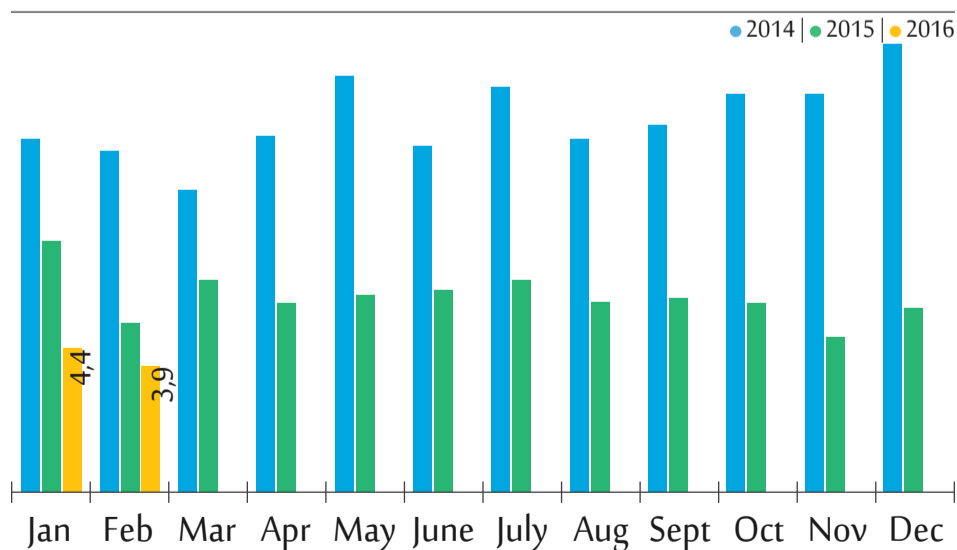
In heavy trucks, one of the worst crisis in history

André Barros | andreb@autodata.com.br



Image/Volvo

Heavy trucks - Monthly (thousand units)



“The worst crisis in the commercial industry in Brazil.”

This is how Luiz Carlos Moraes, vice president of Anfavea, defined the current situation of the Brazilian truck market. The first two months of the year closed with 8.3 new trucks licensed, representing a drop of 35.5% when compared to the same period last year, which had already presented a 39.4% drop when compared to the same period in 2014, and a drop of 3.9% when compared to 2013, and a

drop of 7.8% when compared to 2012, which, in turn, was 4.1% smaller than 2011.

From the first two months of 2011 to the first two months of 2016, the truck segment dropped from 25,000 units to 8300 units, according to Anfavea figures.

“I have never seen such a crisis in the country,” stated Moraes, during the press conference on Friday, 4. “Every segment is dropping.”

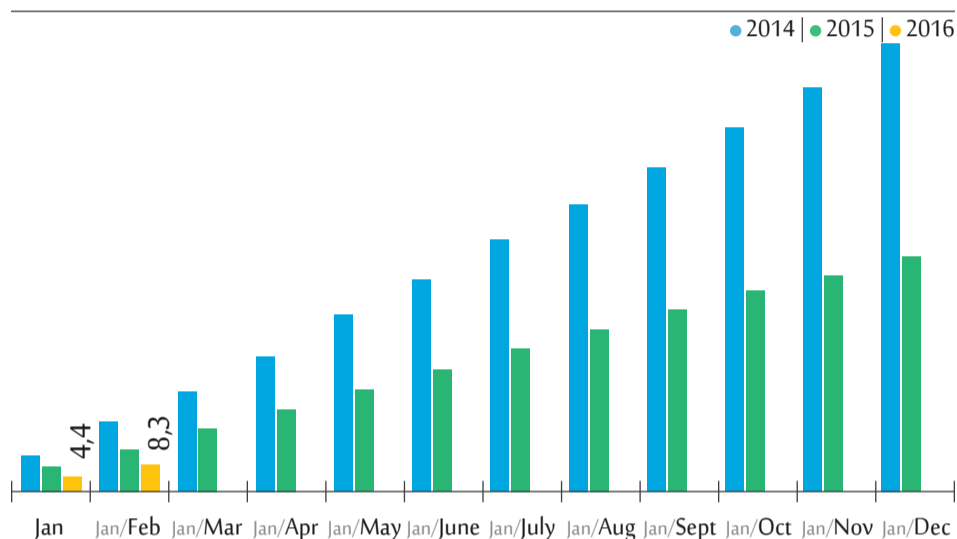
In February, the market dropped again, in both annual and monthly comparisons. When compared to the same month in 2015, the 3.9 thousand units licensed last month represented a drop of 25.3%, while the volume remained 12.8% smaller than sales registered in January.

According to Moraes, every sector has stopped new investment programs. “With the exception of the agribusiness, and, perhaps, exports, we do not have a growth outlook in any market. However, these two are unable to offset the drop in the others. The situation is dramatic.”

Exports during the first two months also dropped: -3.1%, totaling 2517 units. The relief was February’s results, which registered an increase of 17.3% compared to the same month last year, and an increase of 99% when compared to January, representing 1675 units shipped abroad.

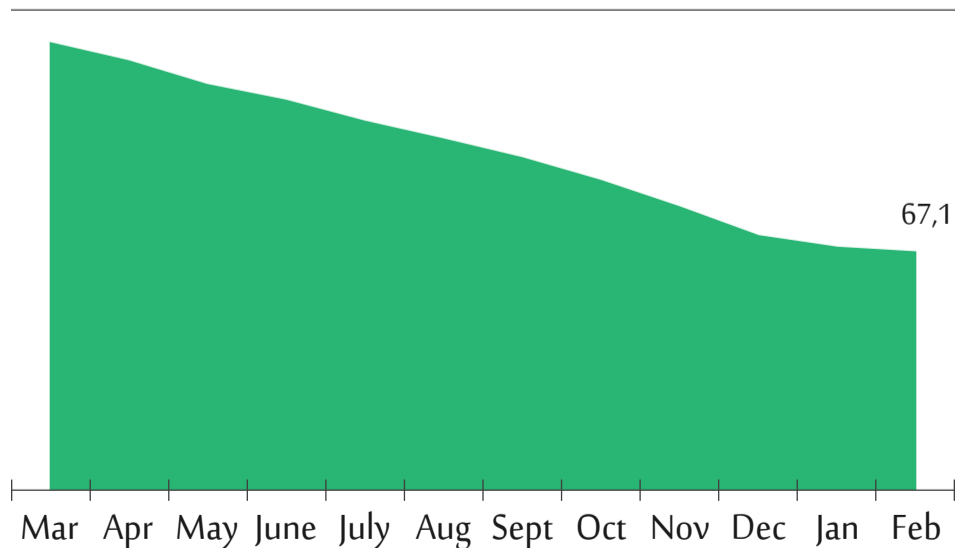
Both weak domestic and foreign markets are reflecting on the production rhythm. During the first two months of the year, production totaled 9.5 thousand trucks, representing a

Heavy trucks - Year to date (thousand units)



drop of 40.7% when compared to the same period last year. In February, production totaled 5.3 thousand units, representing a drop of 30.8% when compared to the same month in 2015, and an increase of 27.3% compared to January. WE

Heavy trucks - 12-month period (thousand units)



Bus sales dropped 49% during the first two months of the year

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In a scenario of overall domestic sales retraction, the bus sector registered the worst performance within the automotive sector this year. Sales in February totaled only 700 units, representing a drop of 32.2% when compared to the 1033 units sold in January, and a drop of 54.2% when compared to the 1528 units sold during the same month last year.

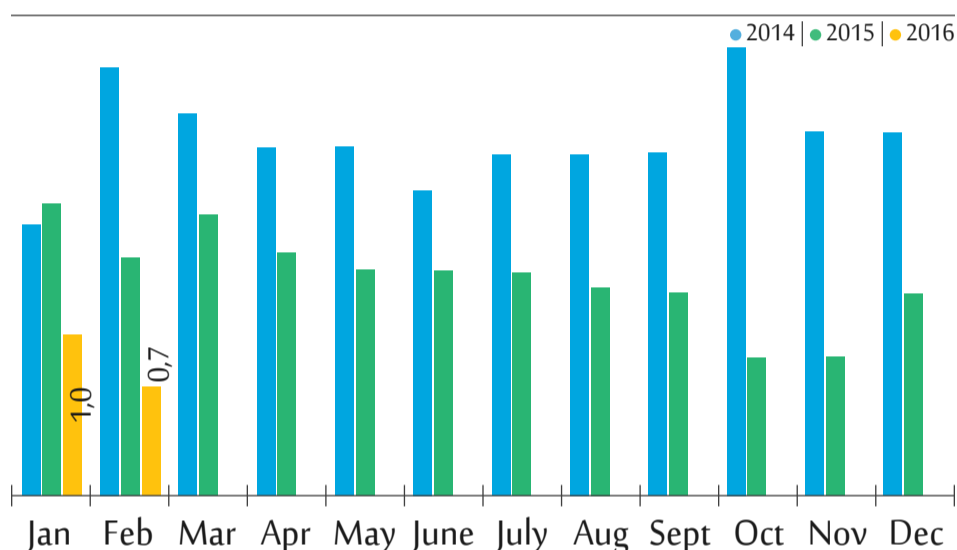
During the first two months of the year, sales totaled 1733 units, representing a drop of 29.1% when compared to the first two months of 2015, when 3403 buses were licensed.

Production also registered a drop for the year, of 45.2%, with 2685 buses produced during the first two months, against 4.9 thousand units produced during the same period of 2015. However, February's performance when compared to January was positive. Production totaled 1509 buses last month, representing an increase of 28.3% when compared to the previous month, which registered 1176 units. When compared to February of last year, which registered production of 2598 units, there was a drop of 41.9%.

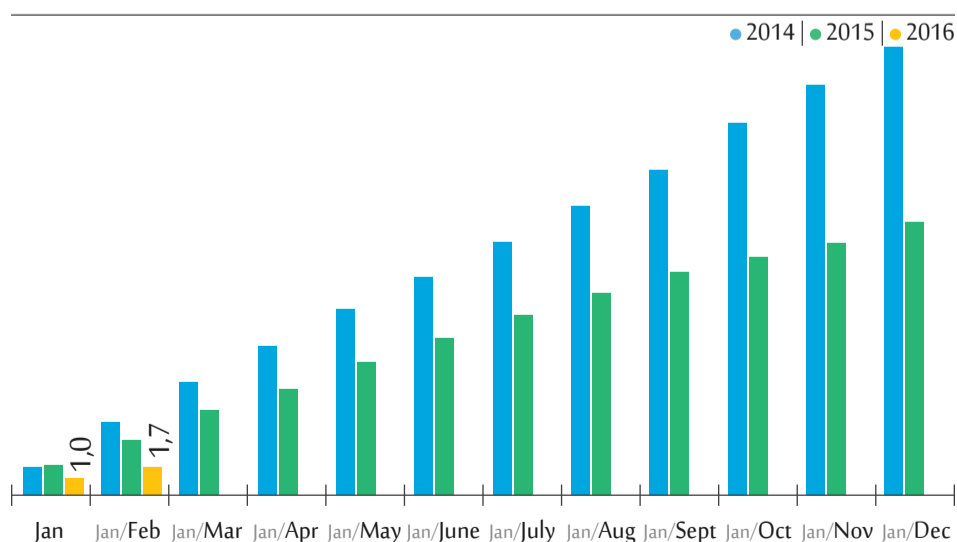
In contrast with the negative performance of the domestic market, the bus segment registered growth in exports. During the first two months of the year, 848 units were shipped abroad, representing an increase of 15.7% when compared to the 733 units exported during the first two months of last year.

WE

Bus - Monthly (thousand units)



Bus - Year to date (thousand units)



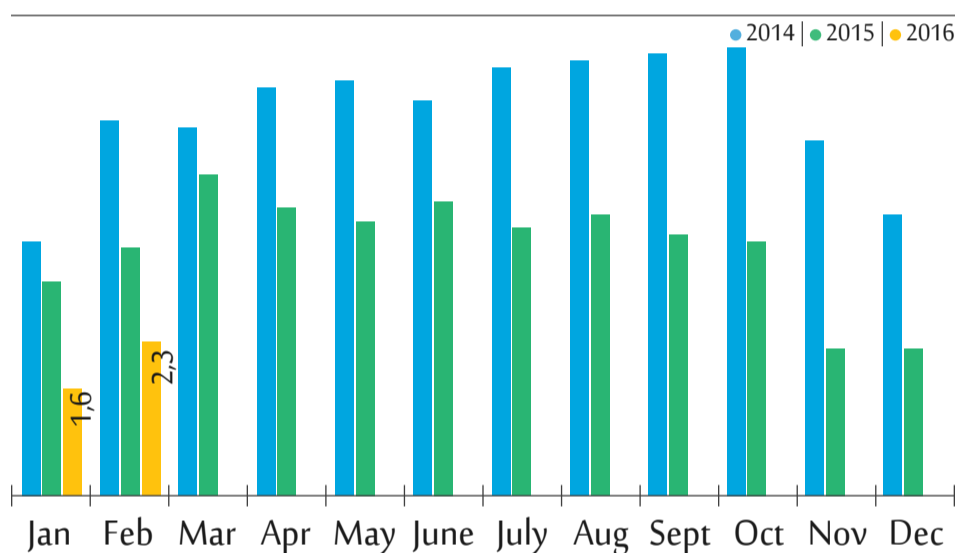
Domestic machinery market dropped 44% during the first two months of the year

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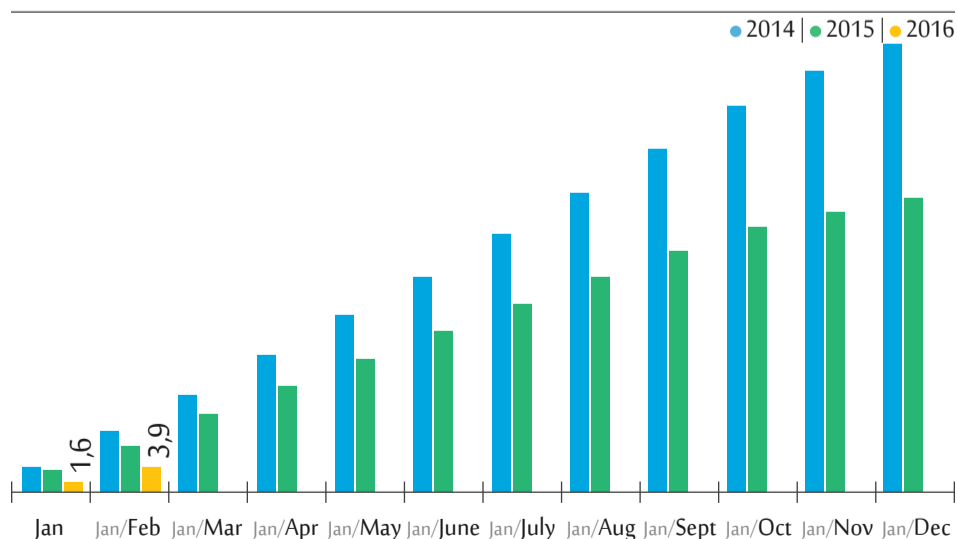
The agricultural and construction machinery market closed February with total domestic sales of 2.3 thousand units. When compared to January, the result represents an almost astounding 50.4% increase. However, in reality, that's not what happened, according to Ana Helena de Andrade, vice president of Anfavea: "In January, manufacturers were practically paralyzed as a result of collective vacations; as a result, this figure is not a good reference."

The numbers of the first two months and the comparison with the performance of the same month last year show the recent

Machinery - Monthly (thousand units)



Machinery - Year to date (thousand units)



reality of the segment. During the first two months of the year, the domestic market, which registered sales of 3.9 thousand units, shrank 44.6% when compared to the same month in 2015. In February of this year, sales dropped a significant 36.5% when compared to the same month in 2015.

With a skidding domestic market and exports still far from expectations - US\$ 1.4 billion during the first two months, a drop of 7.5% when compared to the same period last year - there wouldn't be any reason for the assembly lines to step up production during the beginning of this year.

Machinery production in February totaled 2.9 thousand units, almost 40% below the volume registered during the same month in 2015. The result of the first two months is even bitterer. Production during the period totaled 4.5 thousand units, representing the drop of 52% when compared to the first two months of last year, with a special highlight on the performance of backhoe sales, which totaled 303 units, representing a drop of 73% when compared to the 1.1 thousand units produced during the same period in 2015.

The dramatic scenario for the construction machinery segment is quite easy to comprehend given the halting of large construction initiatives and the simultaneous halting of government purchases. The drop in agricultural machinery - a negative performance of 49.8% for wheeled tractors and a negative 38.1% in harvesting units during the first two months of the year - continue to exceed the worst expectations.

Ana Helena de Andrade blames part of the drop in the segment on the political and economical scenario, which generates uncertainties, but only part. On the other side, says the vice president of Anfavea, there is a strong agribusiness sector with projections of new record harvest seasons and an agricultural GDP that has been growing year after year, contrary, therefore, to the sales of machinery, which shrank approximately 45% since 2013.

According to her, it is natural that sales should once again find more positive levels for the machinery industry, which has an annual installed production capacity of 109 thousand units per year, on three working shifts.

Anfavea projects its members should produce approximately 56.6 thousand units in 2016, slightly above the 55.3 thousand units registered in 2015, but this would represent an idle capacity of 48%.

“The current Brazilian agricultural virtuous circle, which has three harvests per year, should force the acquisition of machinery because increased productivity demands newer equipment. We should have record grains harvests again this year, for example. The machinery industry is certain that the agribusiness is a lot bigger than this crisis, which also has a strong psychological content.” **WE**

Machinery - 12-month period (thousand units)

