

MEXICO *NOW*

Mexico's Auto Industry Conference

Industry Analysis - Opportunities for Suppliers

**Puebla, MX
December 4-5, 2013**



Global Light Vehicle Outlook

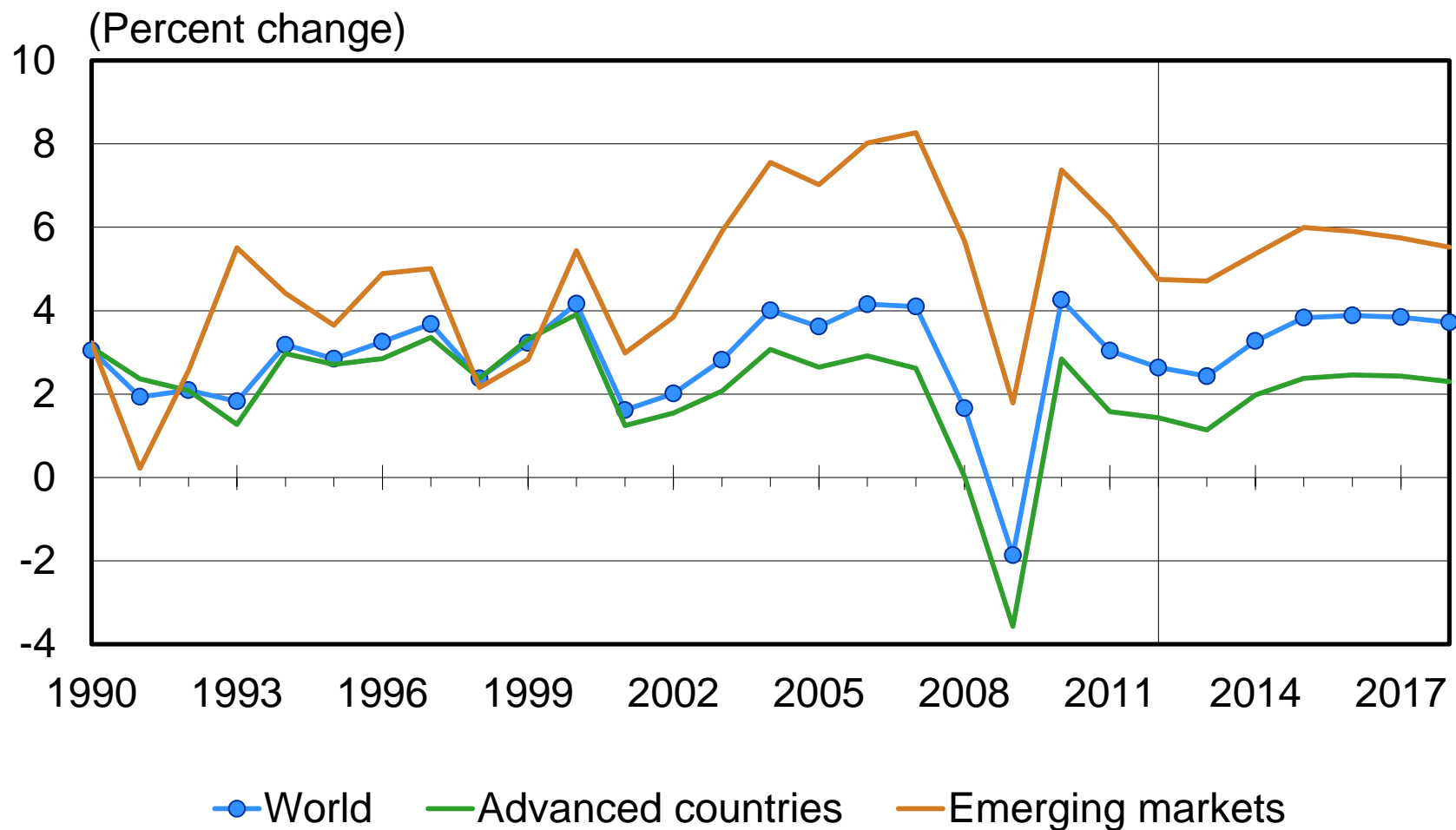
**George Magliano,
Senior Automotive Economist
December 2013**



A Gradual Acceleration in the Global Economy

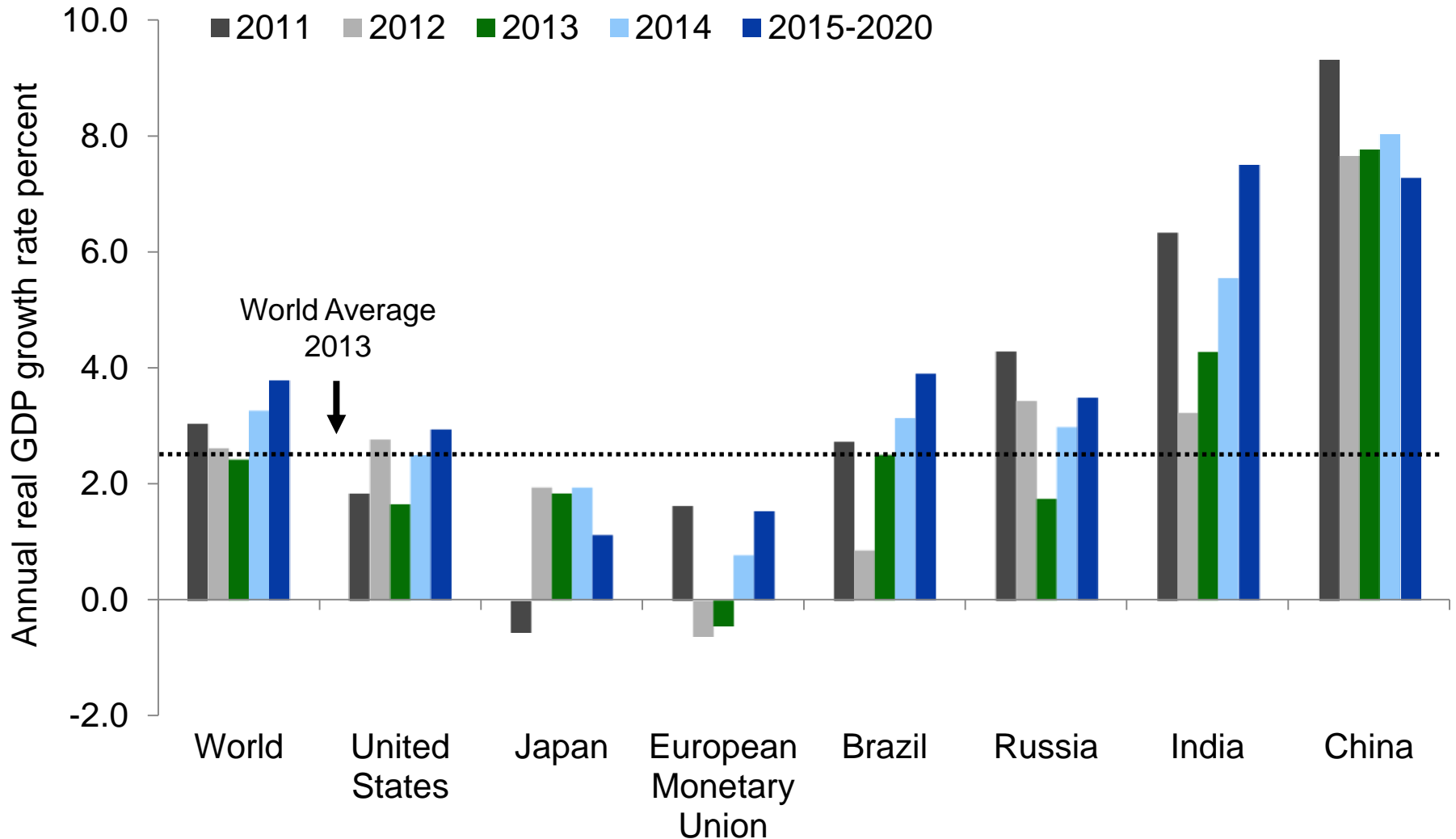
- The developed countries led to a pickup in global economic growth this spring; a further acceleration is expected in the year ahead.
- The Eurozone's long recession has ended, but recovery will be slow.
- China's growth has stabilized; economic reforms to sustain long-term growth may cause short-term friction.
- Asia will lead global growth, while Latin America and Africa will do relatively well by historical standards.
- Emerging markets that depend on external finance are vulnerable to the withdrawal of extreme monetary accommodation by central banks.
- Geopolitics and policy mistakes are the main sources of risk.

Global Real GDP Growth will Strengthen in 2014-15

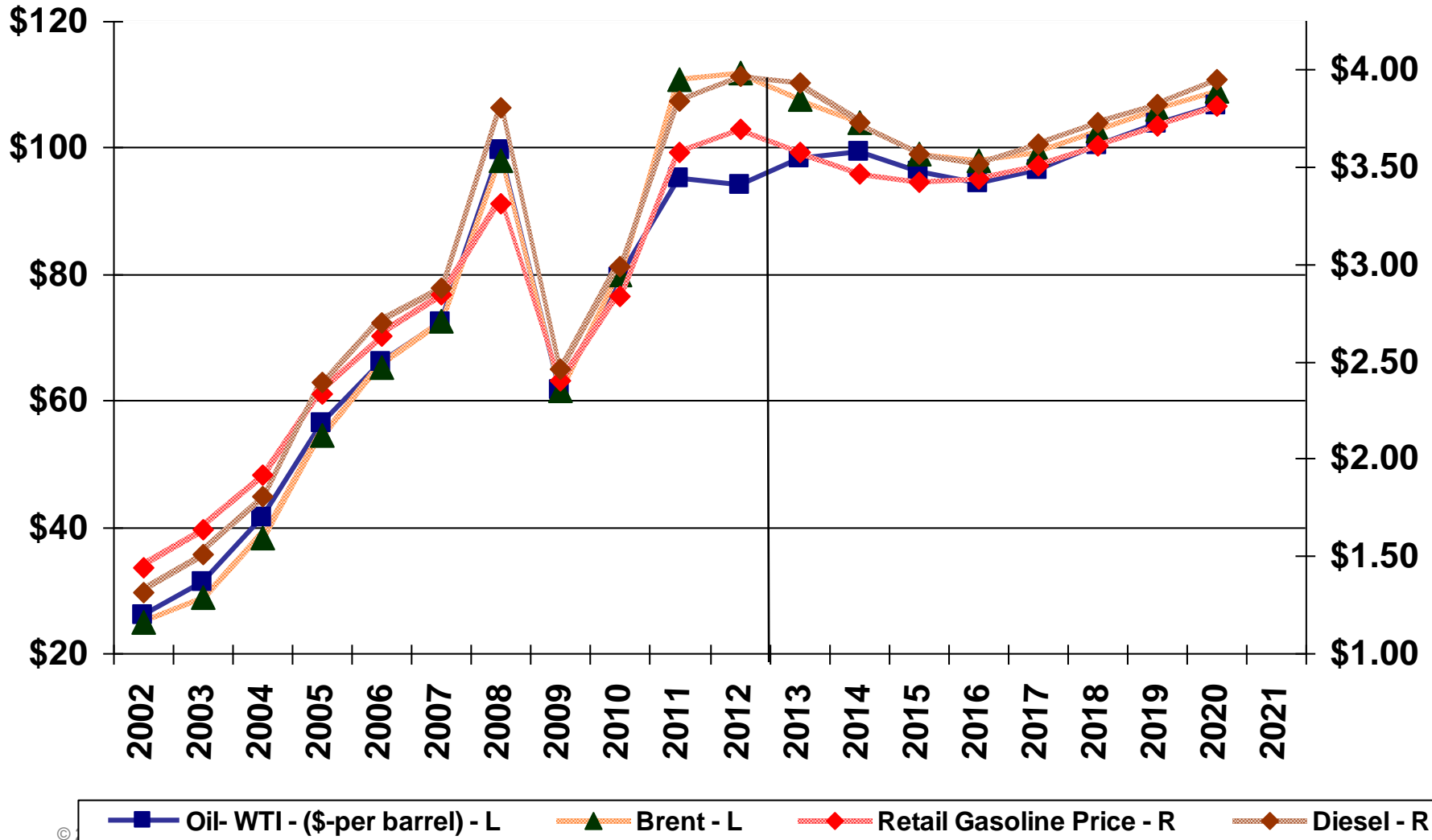


World economic growth rates

Outlook remains strong; emerging markets more uncertain



Crude Oil Price vs. Gasoline Price - Global Game Changer





Why has Growth Slowed in Emerging Markets?

Cyclical forces

- Weak export markets
- Withdrawal of policy stimulus
- Global monetary cycle—
anticipation of QE taper
- Excess capacity after
investment booms

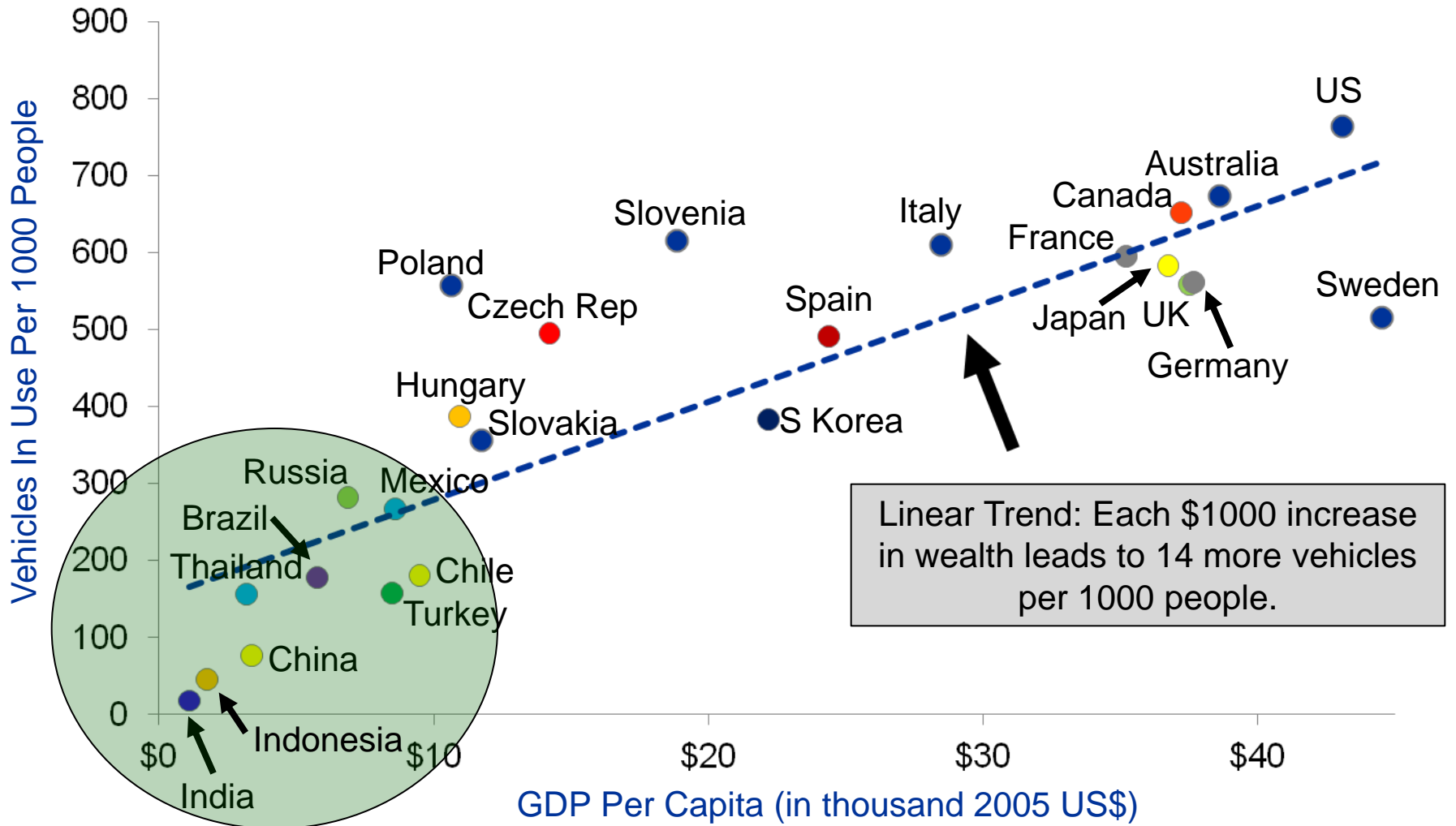
Structural forces

- Slower labor force growth
- End of rapid globalization
- End of the commodity price
supercycle
- Lack of market reforms and
overreliance on government



Country Vehicle Penetration - 2012

Scatterplot Reveals Strong GDP-Vehicle Need Relationship





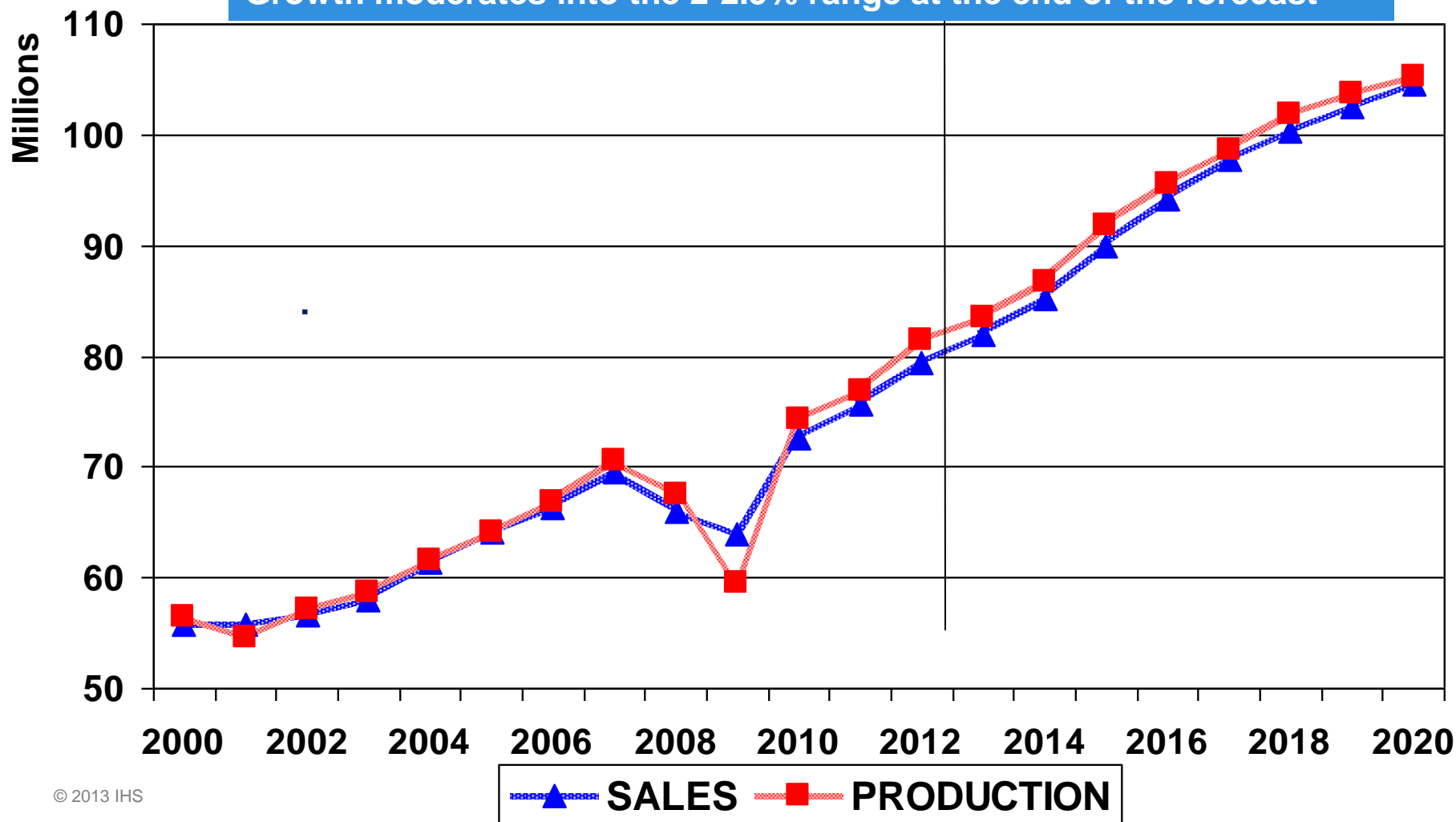
Global Auto Market Overview

- Led by China, US, UK and Australia, Global Auto sales will hit a new peak this year, at close to 82 mm units, despite economic headwinds.
- Economic trade winds will accelerate growth over the next few years.
- Concerns over the future rate of motorization are becoming more prevalent.
- The emerging auto markets are struggling a bit right now, but will get back on track next year.
- The long contraction is nearing the end in Western Europe.
- Mega platforms, strategic co-operation, greater regulation and high tech will dominate the future auto landscape.
- We are seeing the growth of “Second Tier “ volume markets.
- Mature markets are saturated.
- Emerging markets are still riding the wave of rising incomes and motorization.



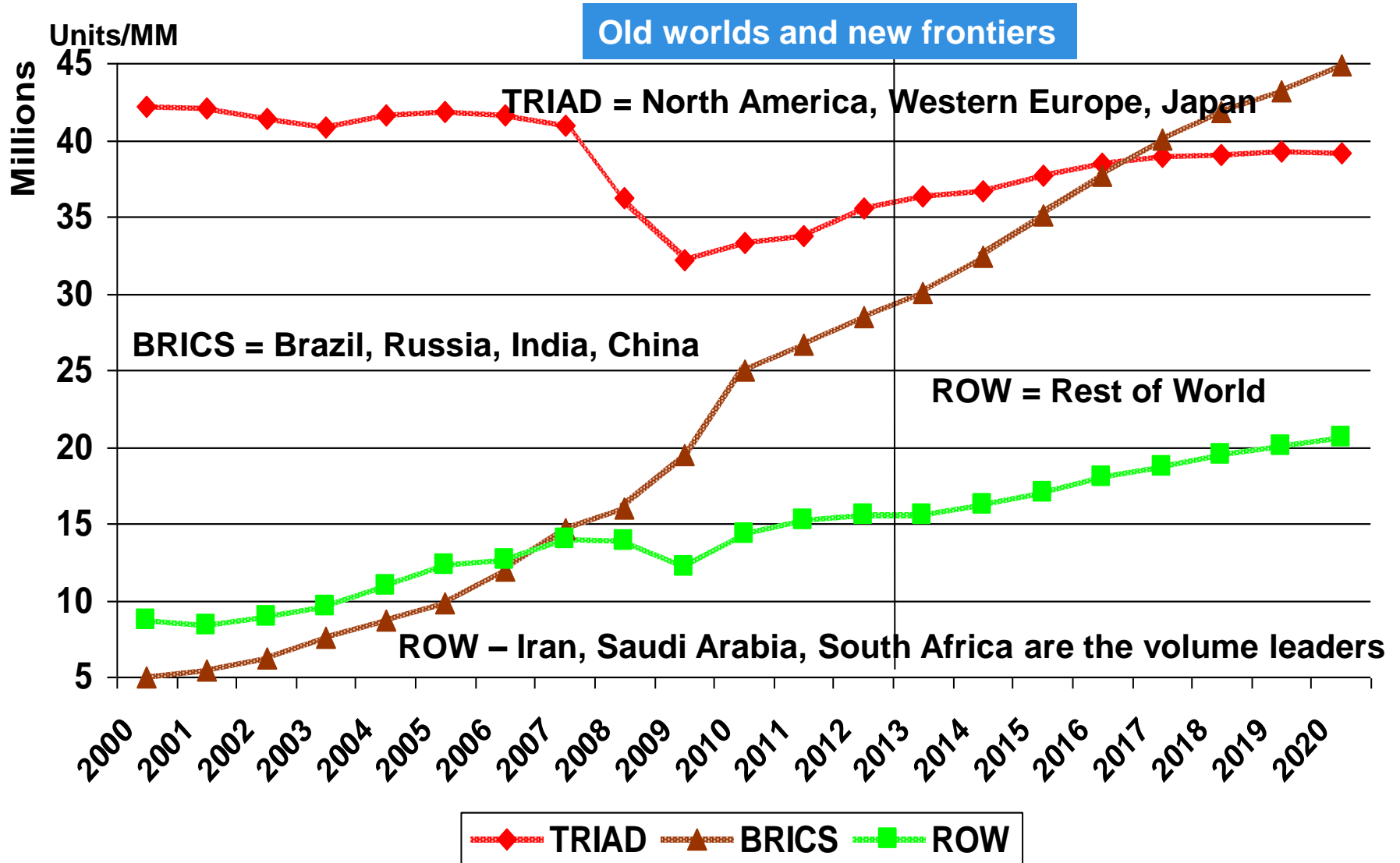
Global Light Vehicle Sales and Production

Growth moderates into the 2-2.5% range at the end of the forecast





Global Light Vehicle Sales



Regional Shares of Light Vehicle Sales (%)

- Emerging Markets still Gaining Share



	<u>2000</u>	<u>2012</u>	<u>2020</u>
NAFTA	35	22	19
W. Europe	30	17	14
Japan	<u>11</u>	<u>7</u>	<u>4</u>
	76	46	37
China	3	24	29
Rest of Asia	8	12	14
E. Europe	5	6	7
S. America	4	7	8
Other Markets	<u>4</u>	<u>4</u>	<u>5</u>
	24	54	63

Light Vehicle Sales - The Top 10 (%)

- Evolutionary not Revolutionary



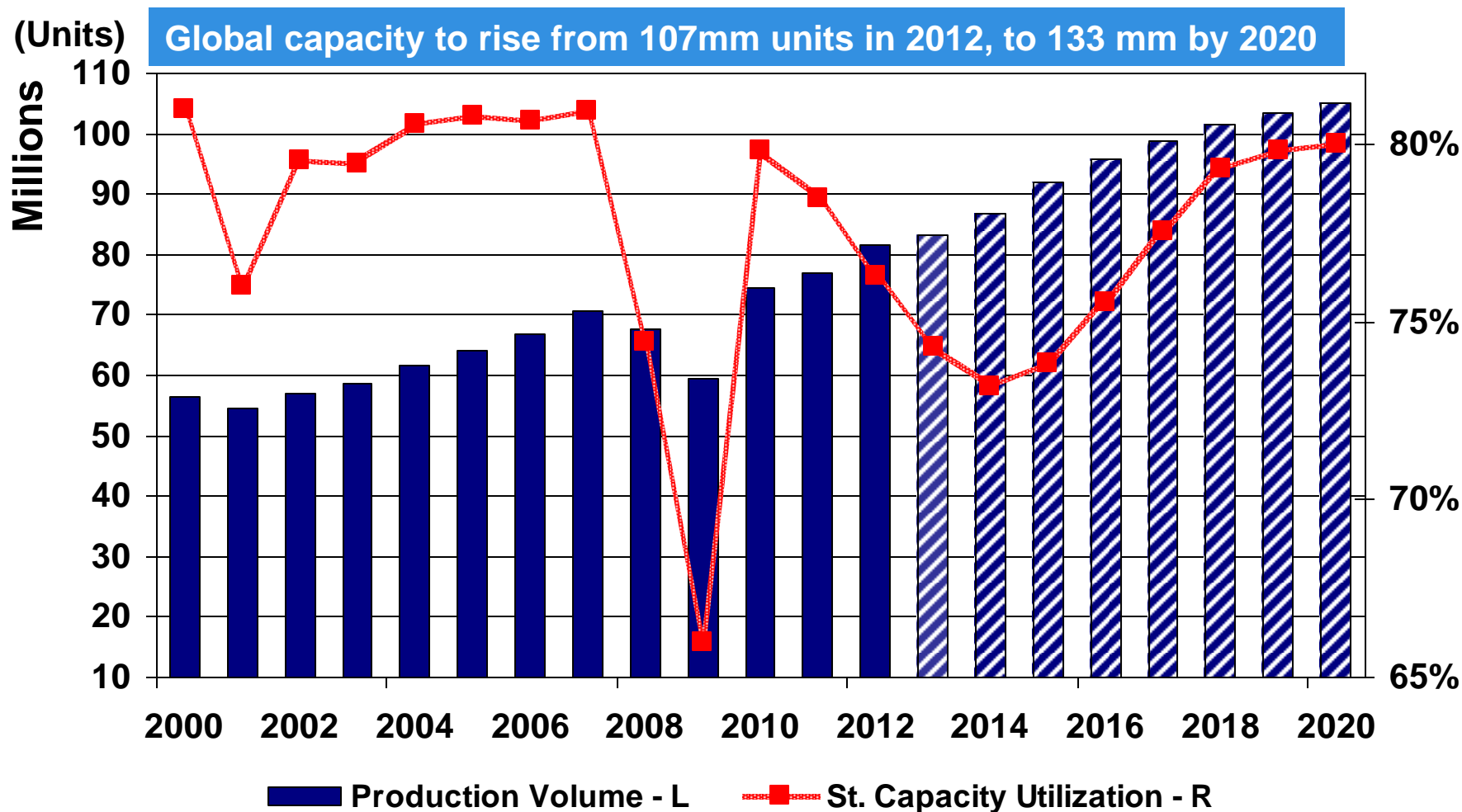
	<u>2000</u>	<u>2012</u>	<u>2020</u>
Volkswagen	9	11	11
Toyota	10	11	10
General Motors	16	10	9
Renault/Nissan	9	9	9
Hyundai	4	9	8
Ford	11	7	7
Fiat	10	5	5
PSA	5	4	4
Honda	5	5	5
Suzuki	2	3	3
Total	80	74	70



Light Vehicle Sales - By Global Segment (%)

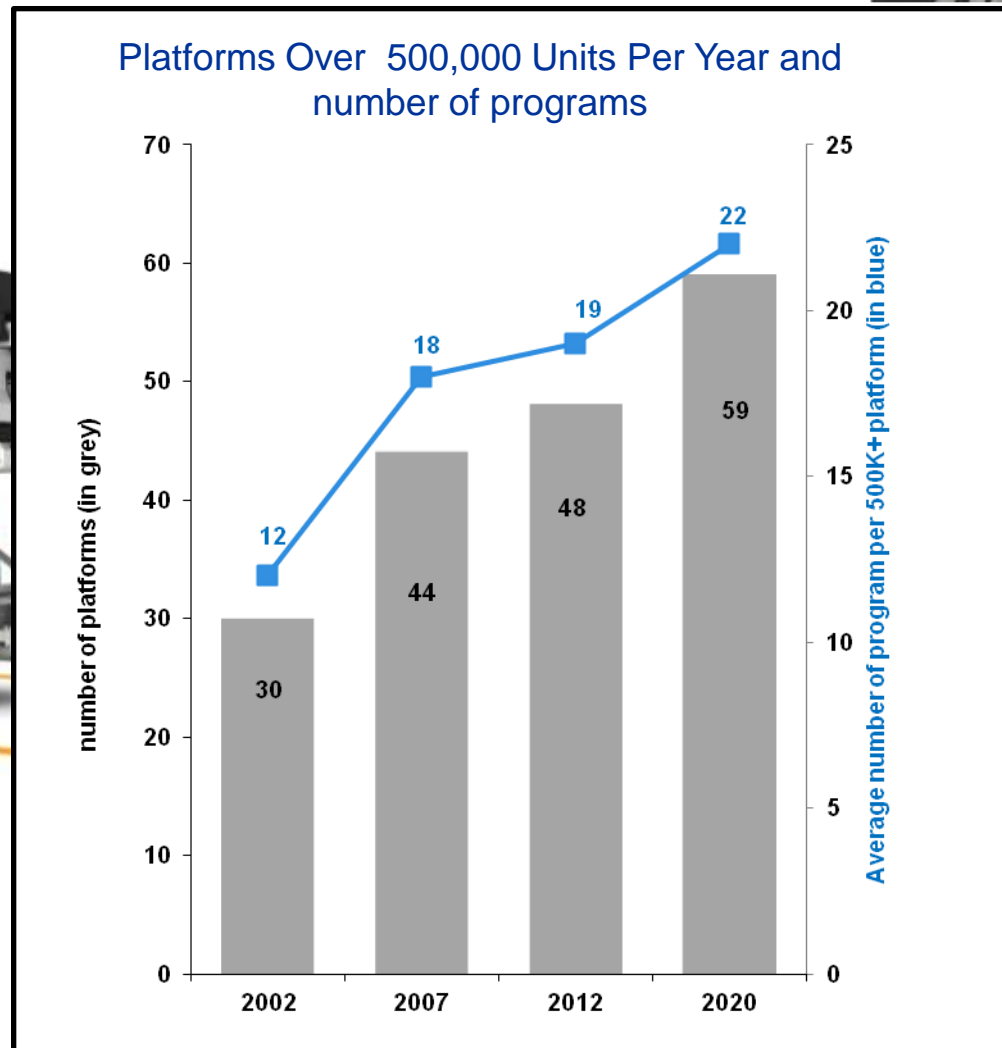
Global	<u>2000</u>	<u>2012</u>	<u>2020</u>
A	9	12	12
B	14	18	20
C	30	37	38
D	33	25	22
E	13	6	6
F	0	0	0
HVAN	1	2	2
SALES VOLUME	55.8MM	79.5MM	104.5MM

Global - Production and Capacity Utilization



Global Light Vehicle Production Outlook

Platform developments



Europe – Economic Environment

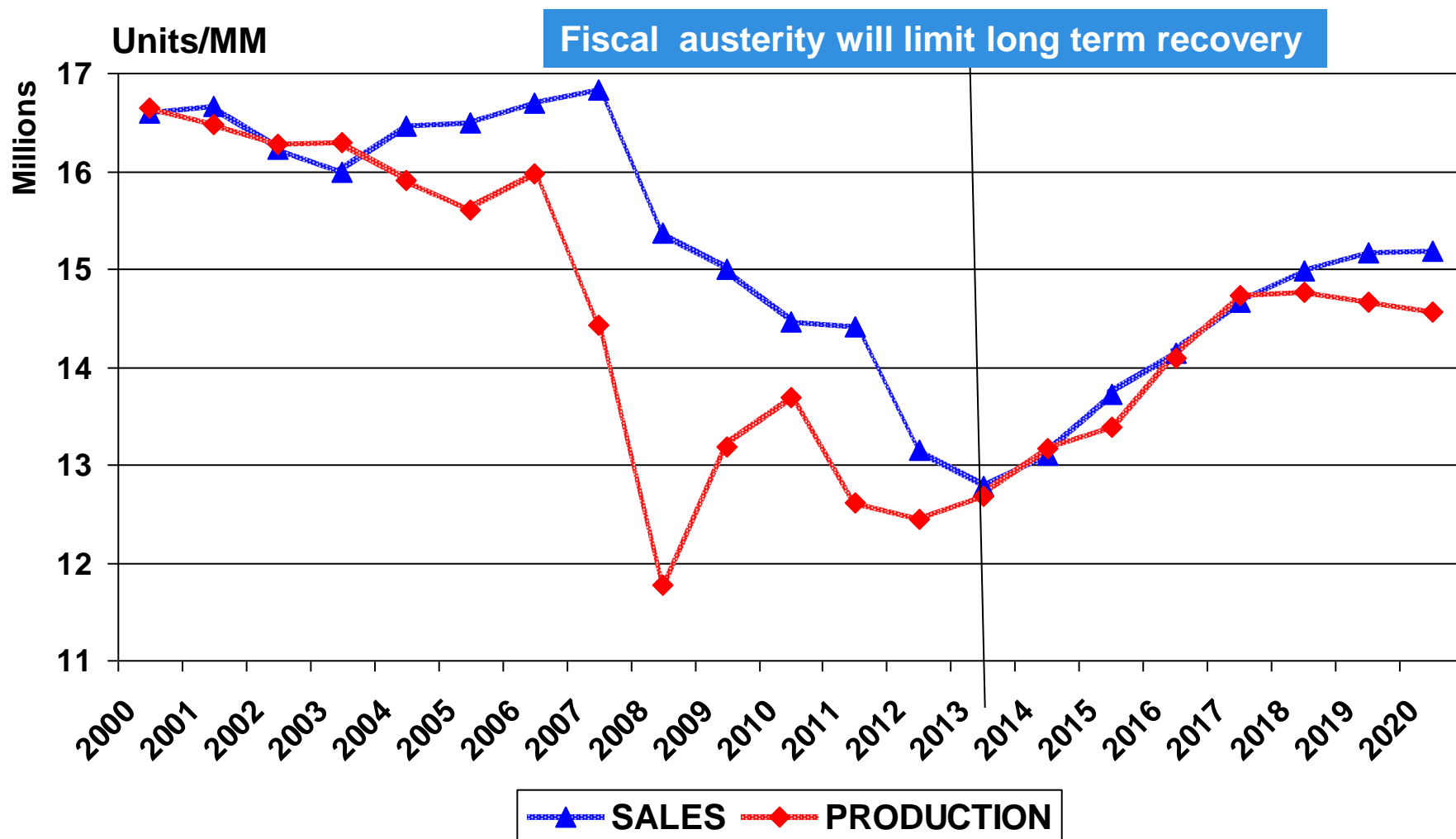
- After a protracted recession, the Eurozone economy is growing again, but full recovery in real GDP will take until 2016.
- Mild inflation, monetary stimulus, and pent-up demand will support growth.
- Extended fiscal austerity, weak consumer finances, and tight credit conditions for small and medium-sized enterprises will restrain Europe's expansion.
- The Eurozone's economic problems have affected the region through weak exports, diminished capital inflows, and limited credit availability.
- The Czech Republic, Hungary, and Slovenia were hardest hit in 2012-13.
- Poland will benefit from strengthening export markets, foreign direct investment, and development of shale gas resources.
- Social unrest, a deteriorating Syrian situation, a large current-account deficit, and currency instability hurt Turkey's near-term growth.
- In Russia, WTO accession did very little for the reform process and the investment climate has deteriorated.



Europe Auto – Automotive Summary

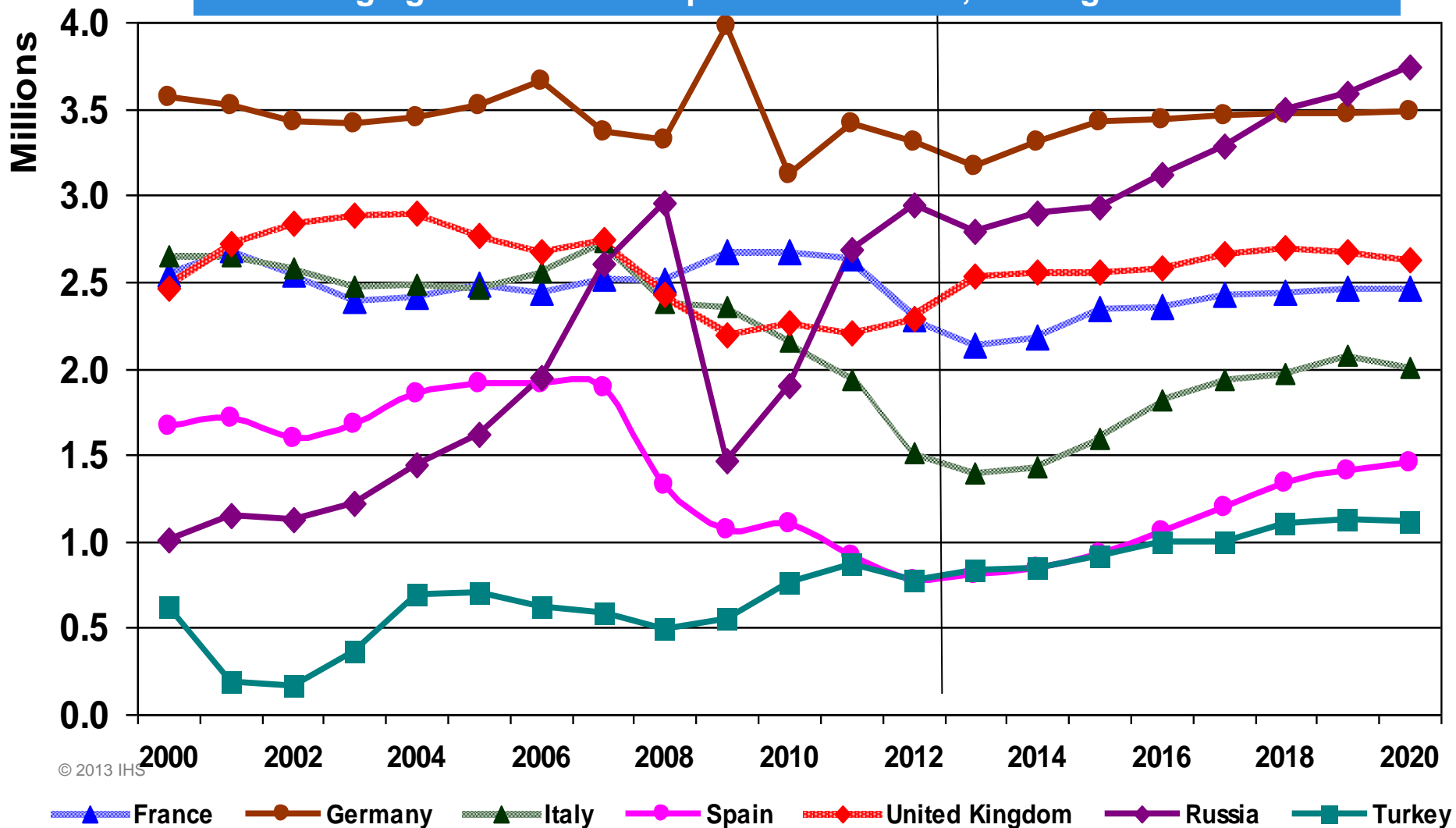
- 2013 will mark the sixth year of decline for Western Europe.
- Pent-Up demand has begun to stabilize the market, and will lead the recovery.
- In the second half of 2013, Germany is still expected to improve, as new model launches continue to spark the market later in the year and extra clarity is afforded by the September elections.
- Longer term, much needed normalization is not expected before 2016/17 in France as the market will remain sensitive to many external impacts.
- The second round of the scrappage program is proving effective in Spain for both passenger car and light commercial vehicle sales. This led the government to confirm that a third round of incentives would be funded.
- Sales incentives (discounts, financing deals) continue attracting customers to showrooms in the UK, we expect an erosion of current incentive levels to slow sales as the year ends.
- The slowdown in the Russian auto market has become re pronounced, declines to moderate in second half, helped by renewed stimulus programs.

Western Europe - Light Vehicle Sales and Production



Europe - Light Vehicle Sales

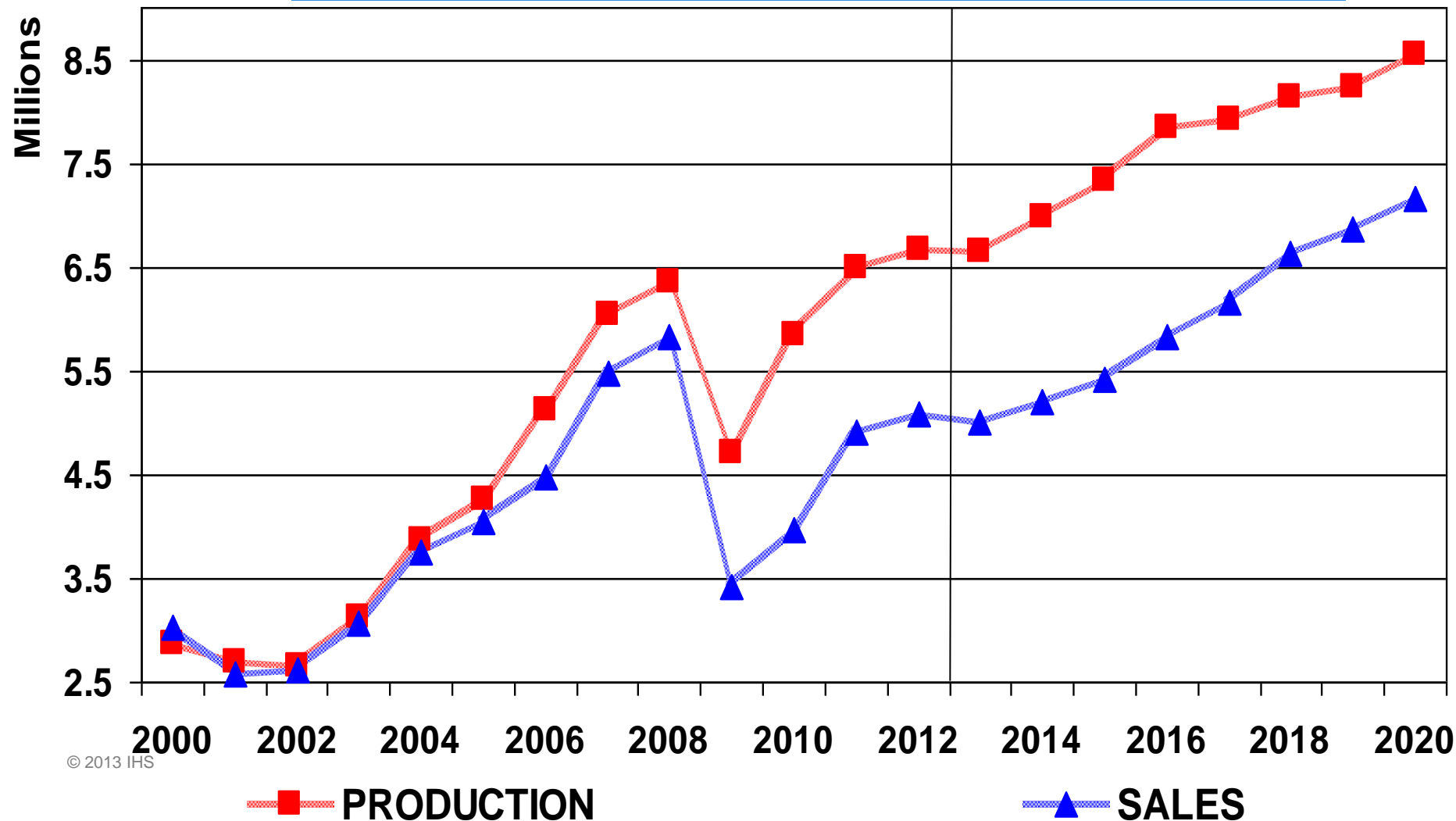
The changing face of the European auto market, shifting from west to east





Eastern & Central Light Vehicle Sales & Production

The region is becoming a massive production base for exports



© 2013 IHS



Asia-Pacific will Continue to Lead Global Growth

- A replay of the 1997-98 crisis is unlikely: debt levels are lower, foreign-exchange reserves are higher, exchange rates are more flexible, and banks are healthier.
- Indonesia and India have been hit hard by capital flight and currency depreciation, prompting central banks to raise interest rates.
- Strong domestic demand is sustaining growth in the ASEAN region.
- In Japan, the sales tax will increase from 5% to 8% in April 2014 and to 10% in October 2015, causing setbacks in consumer spending.
- Although China's financial system is vulnerable to excessive leveraging through shadow banking and a downturn in overbuilt property markets remains a risk, the government appears to have engineered a soft landing.
- To support growth, the Chinese government has announced numerous fiscal stimulus measures, including support for infrastructure and low-cost housing projects.
- India's economy shows signs of stabilization in manufacturing and services. Yet, India remains vulnerable to shifts in investor sentiment. Long-term growth potential remains high, led by information technologies.



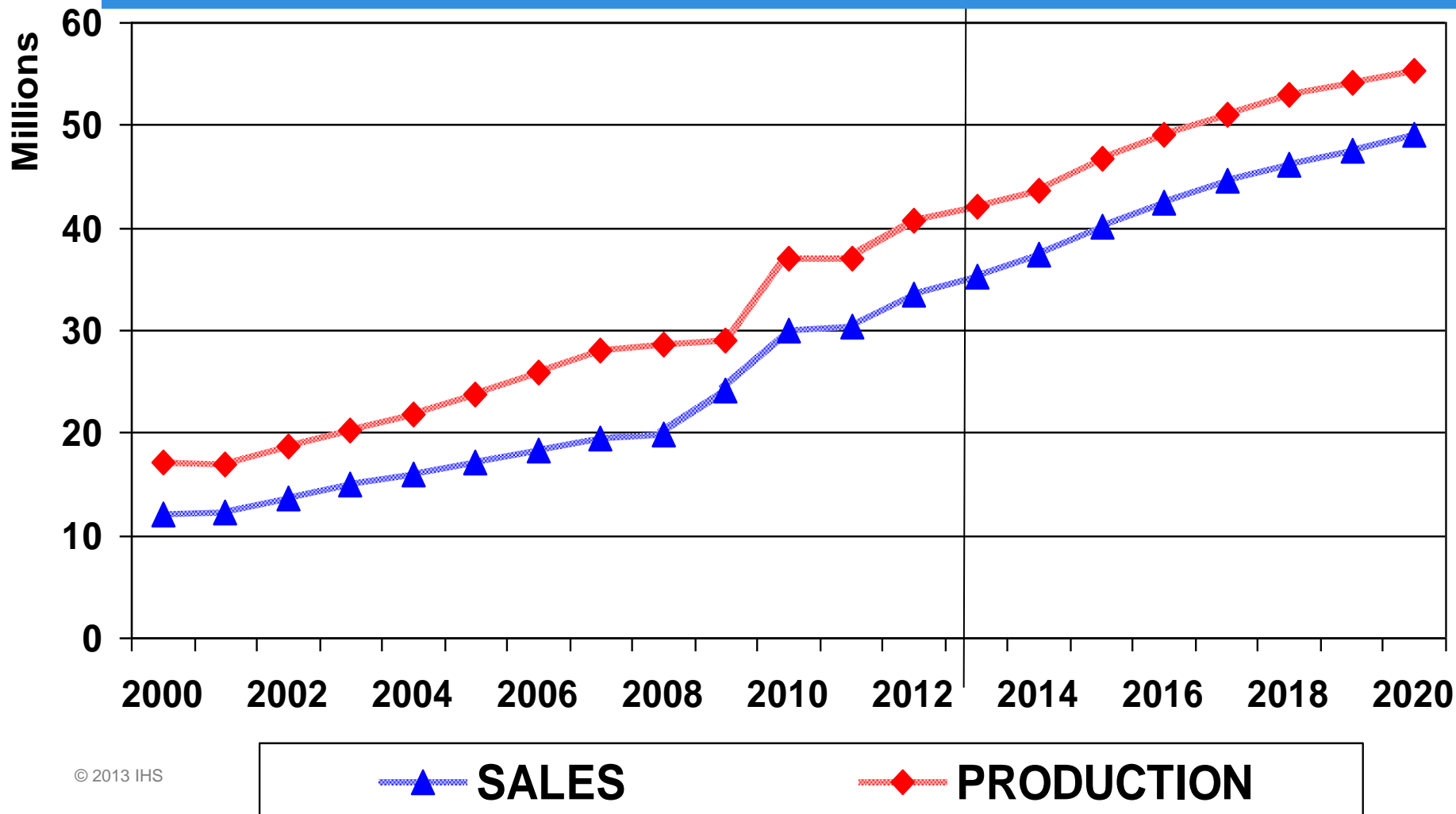
Asia - Automotive Summary

- The Japanese sales outlook for full-year 2013 is expected to be down 5%, particularly because of the negative payback effect from the demise of the eco-car subsidy in late September 2012.
- Labor unrest at Hyundai has caused problems for Korea's auto sector.
- The Chinese auto sector, despite a slowdown in the economy, has returned double digit growth this year.
- The highest-ever devaluation of the Indian currency and a slowdown of GDP growth, along with high interest rates, have taken a toll of consumer and business sentiments in the country, triggering a decline in light vehicle demand.
- Tough comparisons to 2012 in Thailand, and a moderating economy have impacted the ASEAN auto sector, long-term prospects remain extremely bright.
- ASEAN will continue to expand as a production hub for exports.
- New vehicle sales were up in July 2013 in Oceania compared with 2012 as sales in both Australia and New Zealand continue to break records, up 9.8% compared with July 2012.



Asia - Light Vehicle Sales & Production

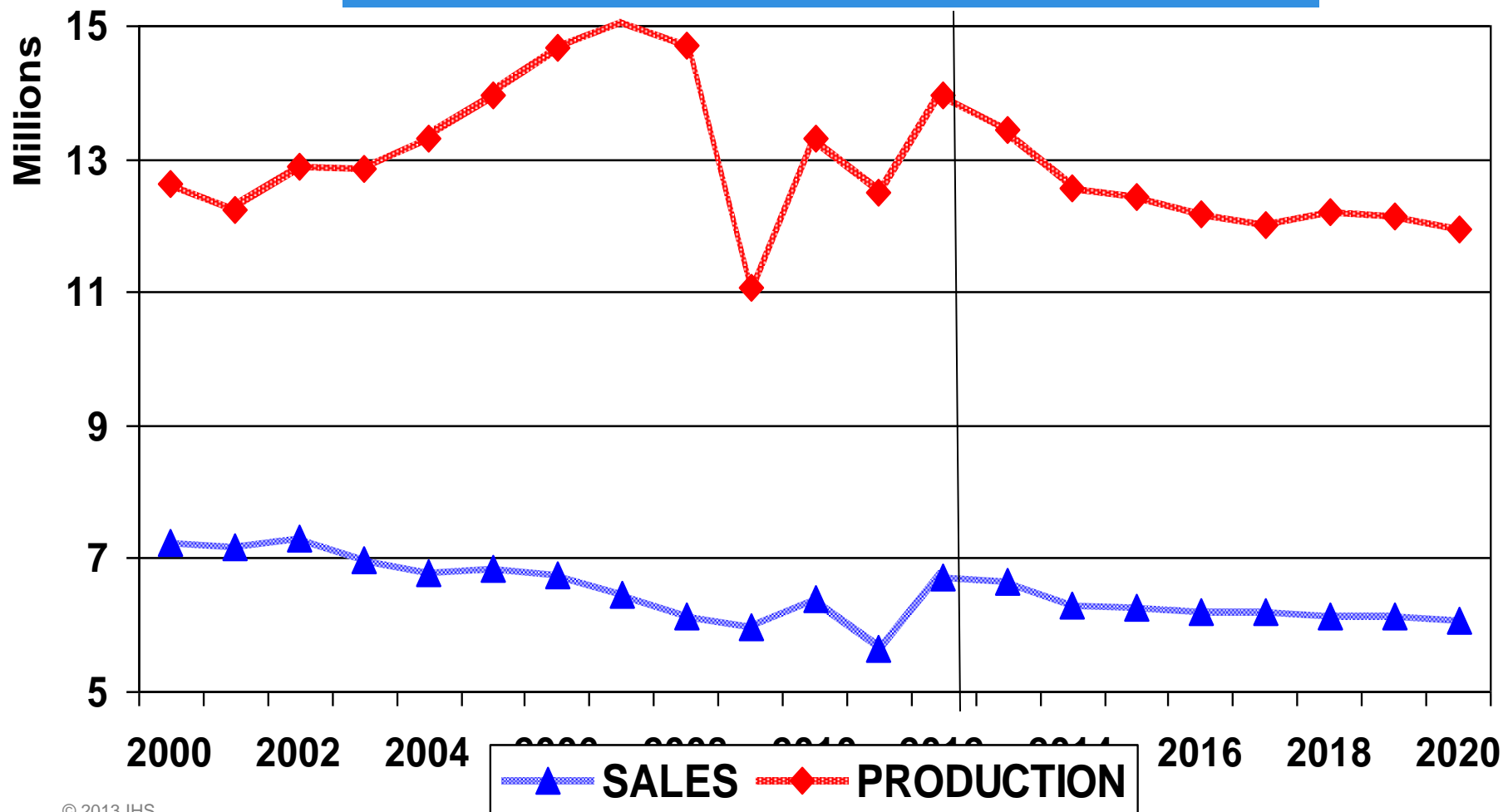
Nearly half global demand by 2020, a true colossus, but not a homogenous region





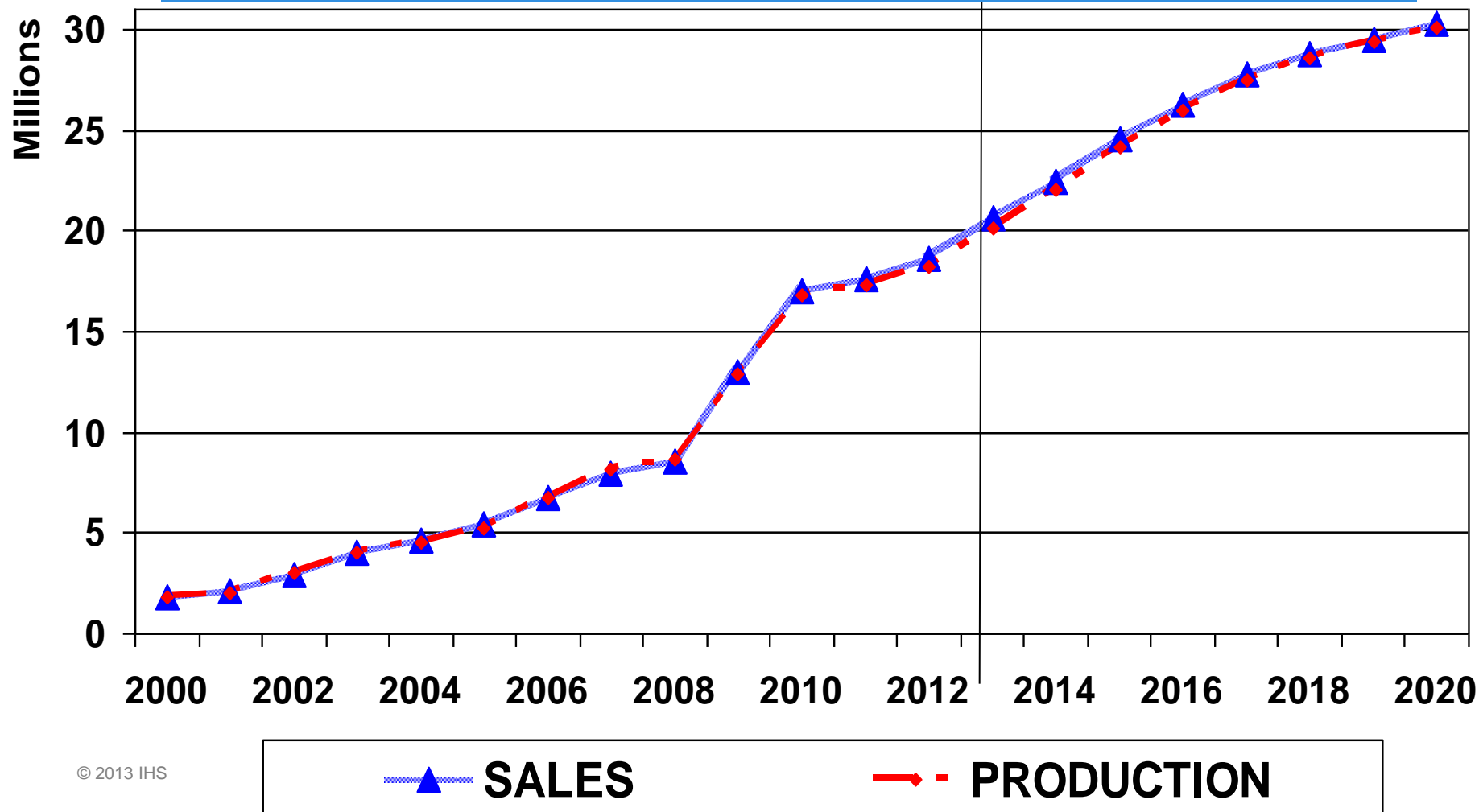
Japan / Korea - Light Vehicle Sales & Production

Long term structural problems for both Japan and Korea



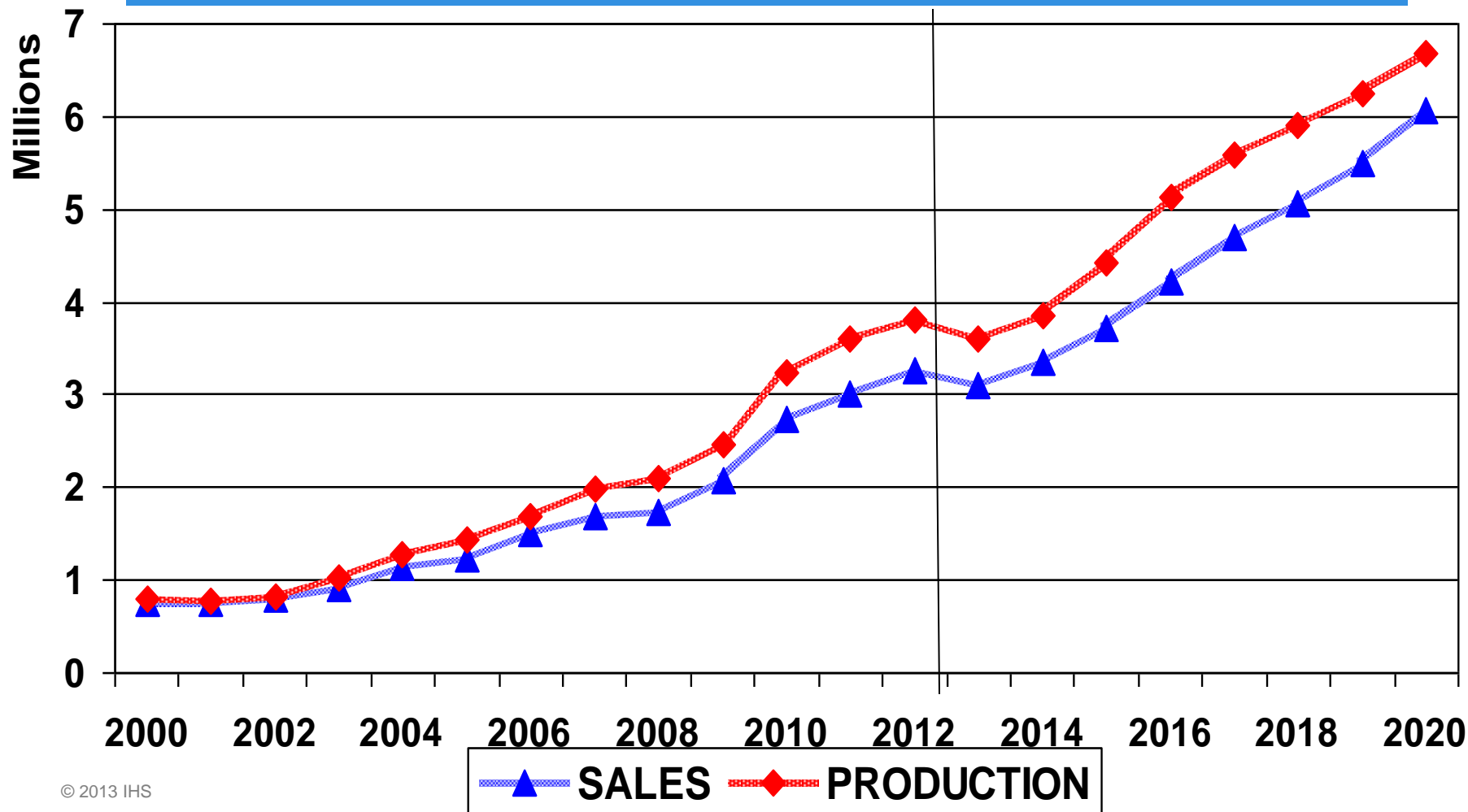
China - Light Vehicle Sales & Production

Concerns over congestion & the environment could slow long run growth



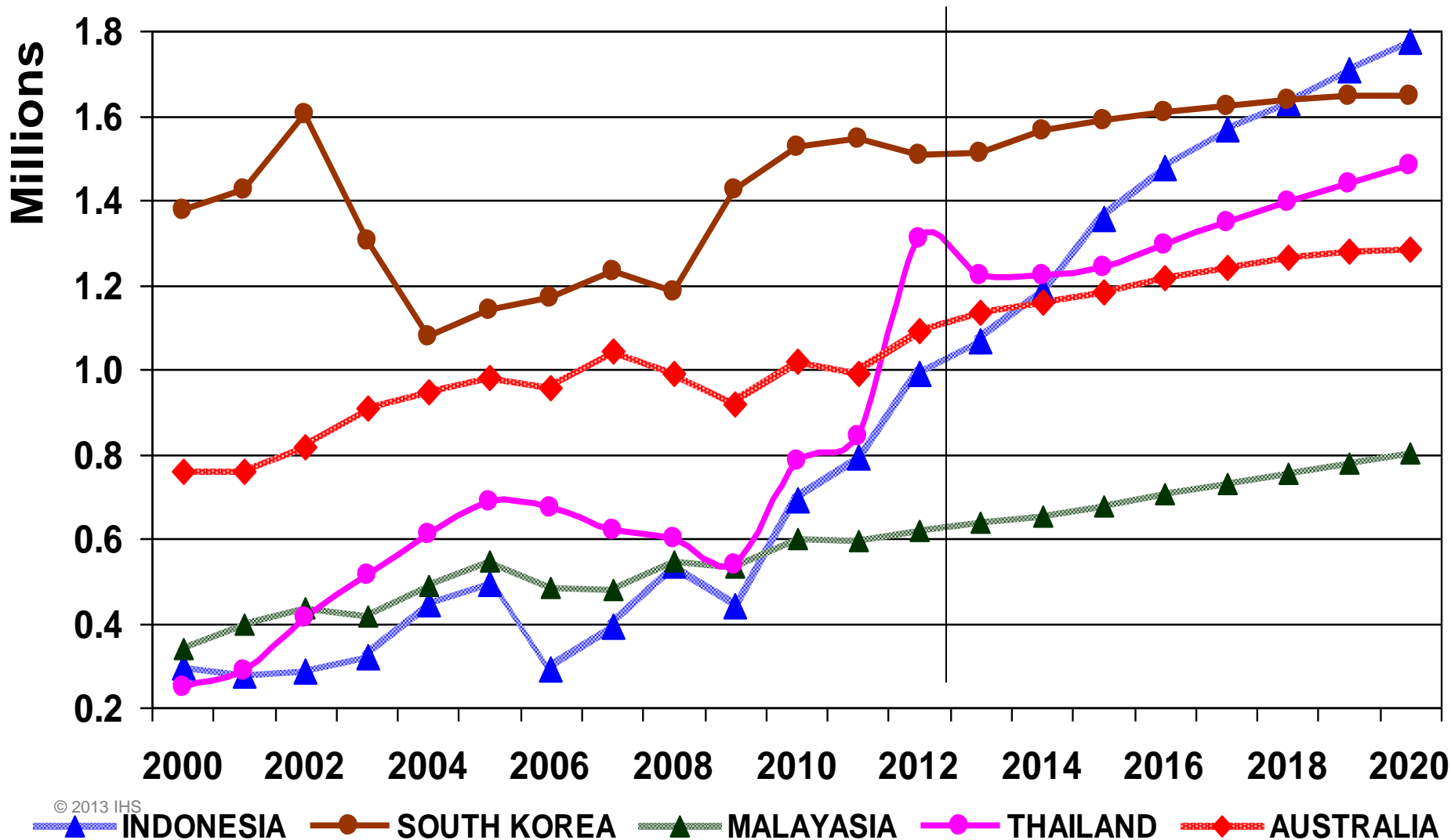
India - Light Vehicle Sales & Production

The economy hurt auto demand in 2013, future remains bright , if not risky





Other Asia - Light Vehicle Sales





South America - Varied Investment Climates

- The region is expected to see stable real GDP growth of 3-4%.
- In a weak pricing environment, reliance on commodity exports is no longer a support to investment and growth.
- Prospects are bright for countries with sound policy frameworks and inflows of foreign investment, including Chile, Colombia, Brazil, and Peru.
- Policy mismanagement and resource nationalism will restrain growth potential in Venezuela, Argentina, Ecuador, and Bolivia.
- Brazil's economic growth remains disappointing. Investment has picked up, but high inflation and debt burdens are restraining growth in consumer spending.
- South America's long-term challenges include inadequate infrastructure, restrictive business environments, and income inequality.



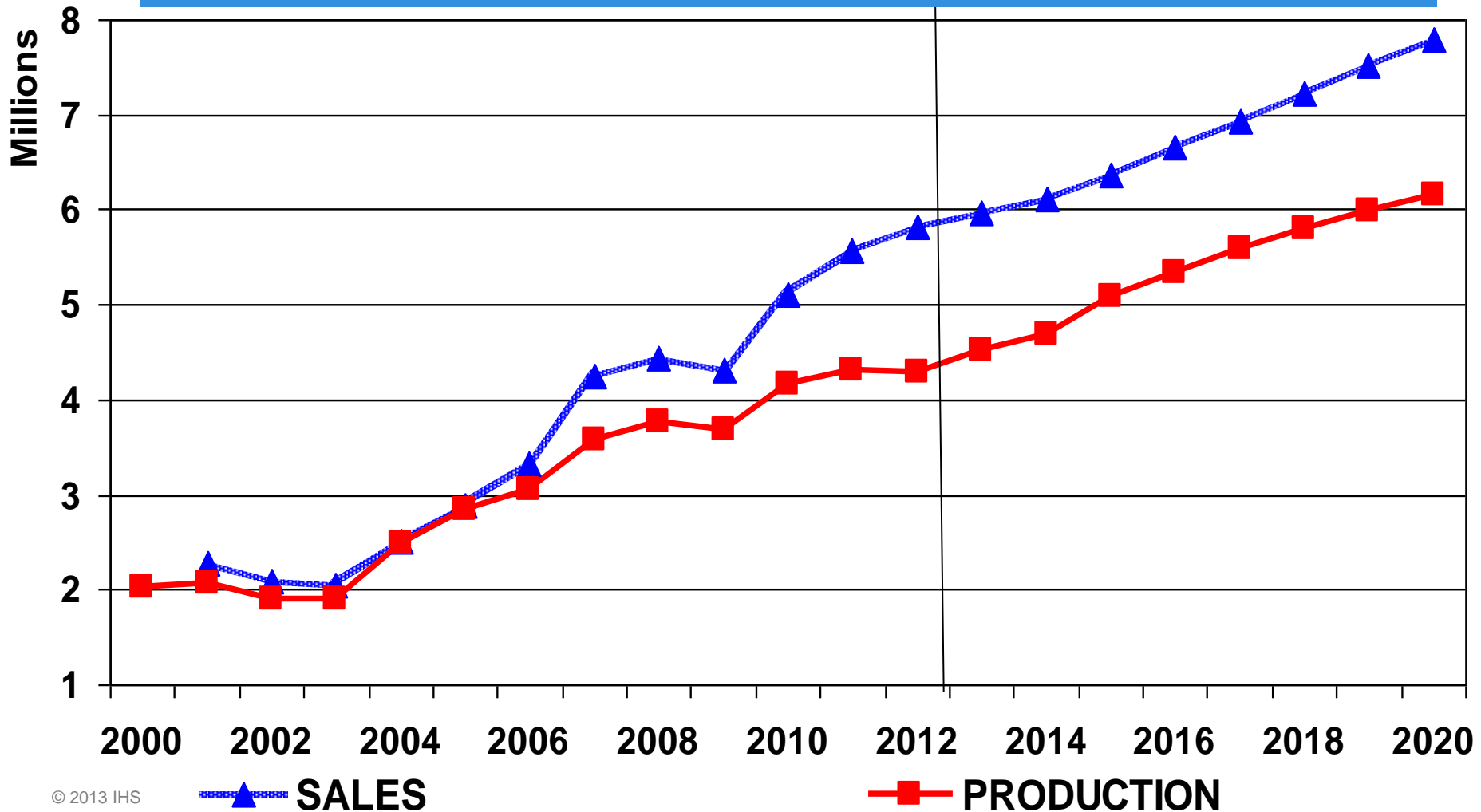
South America - Automotive Summary

- Economic and political issues in the region are negatively impacting the auto sector in South America.
- The Brazilian market is moved by tax abatement and auto credit, and sales will moderate as the stimulus program fades out.
- Black market activity is currently stimulating auto sales in Argentina, in the long-run demand will flatten because of harmful government policies, most likely after the Presidential election in 2015.
- The Colombia auto sector slowed in 2012, in response to tight monetary policy; outbound economic expansion drives the auto sector.
- Venezuela will struggle, since Maduro will continue Chavez's policies.
- Eventually Venezuela will recover and Chile become a good secondary auto market.
- Trade wars are becoming a nuisance.
- The region's auto sector has been highly successful in attracting foreign investment, a major plus for the economy in general, as well as autos in particular.



South America - Light Vehicle Sales & Production

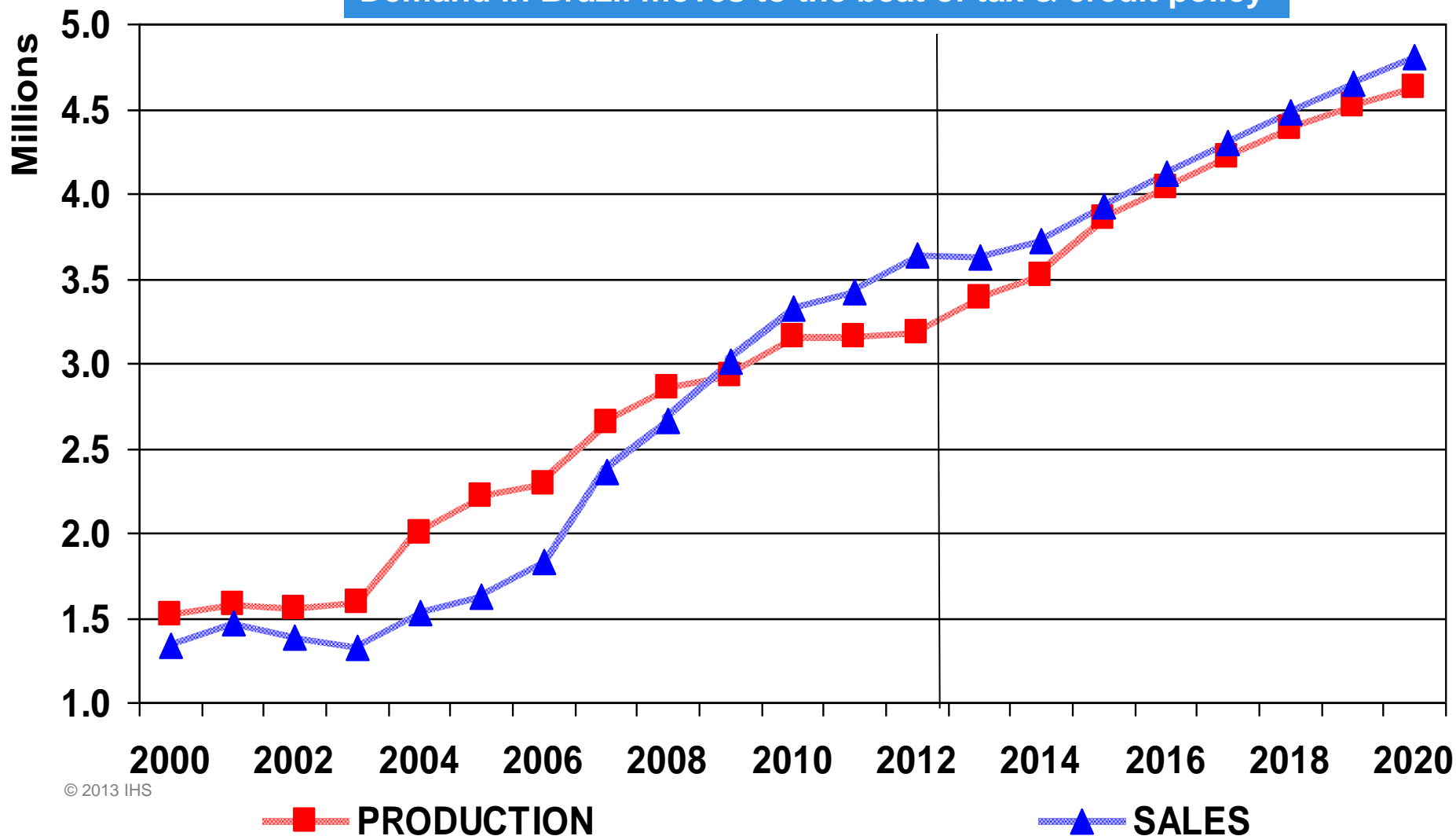
“Other South America” becomes more important, but Brazil still dominates



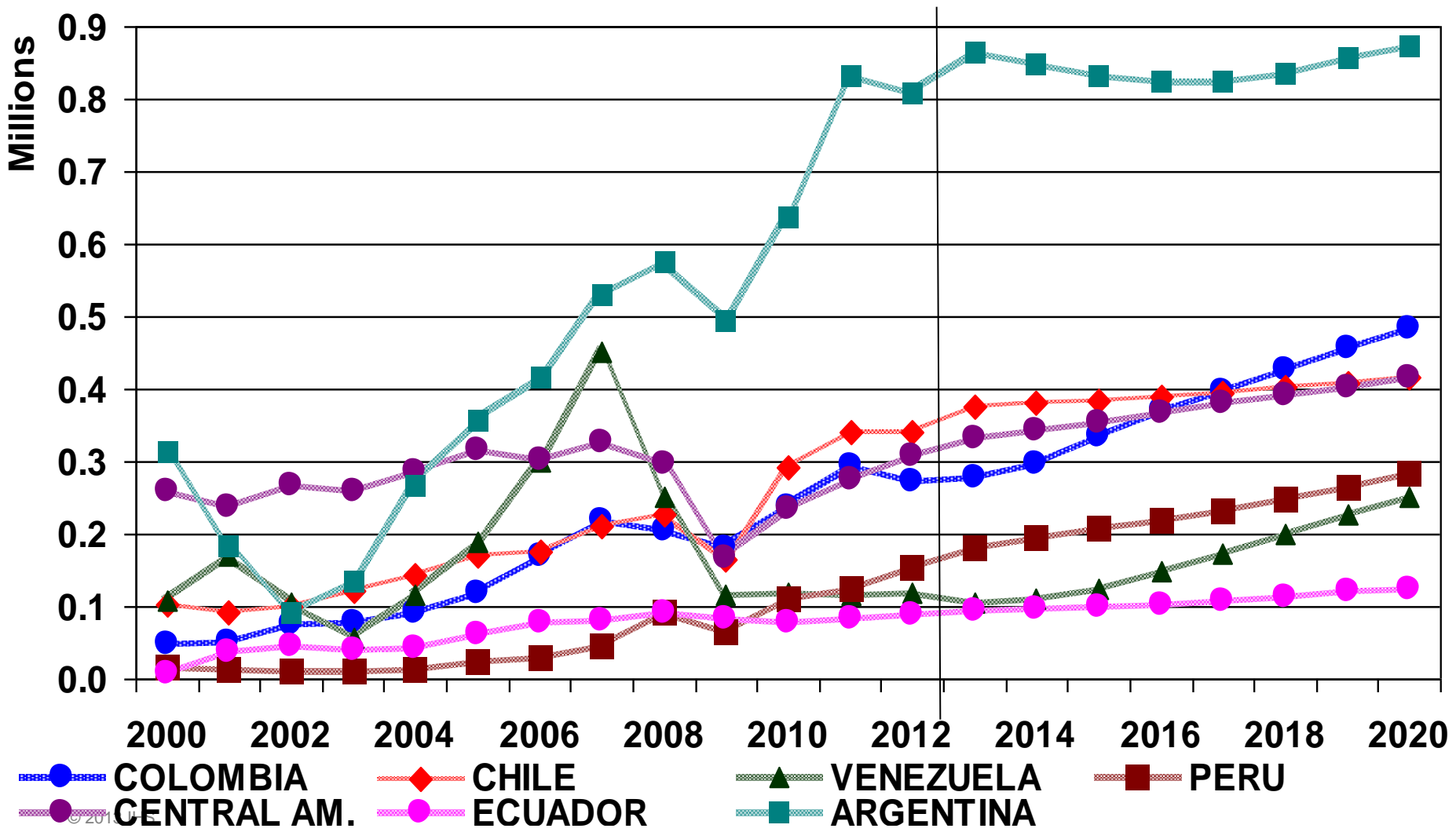


Brazil - Light Vehicle Sales & Production

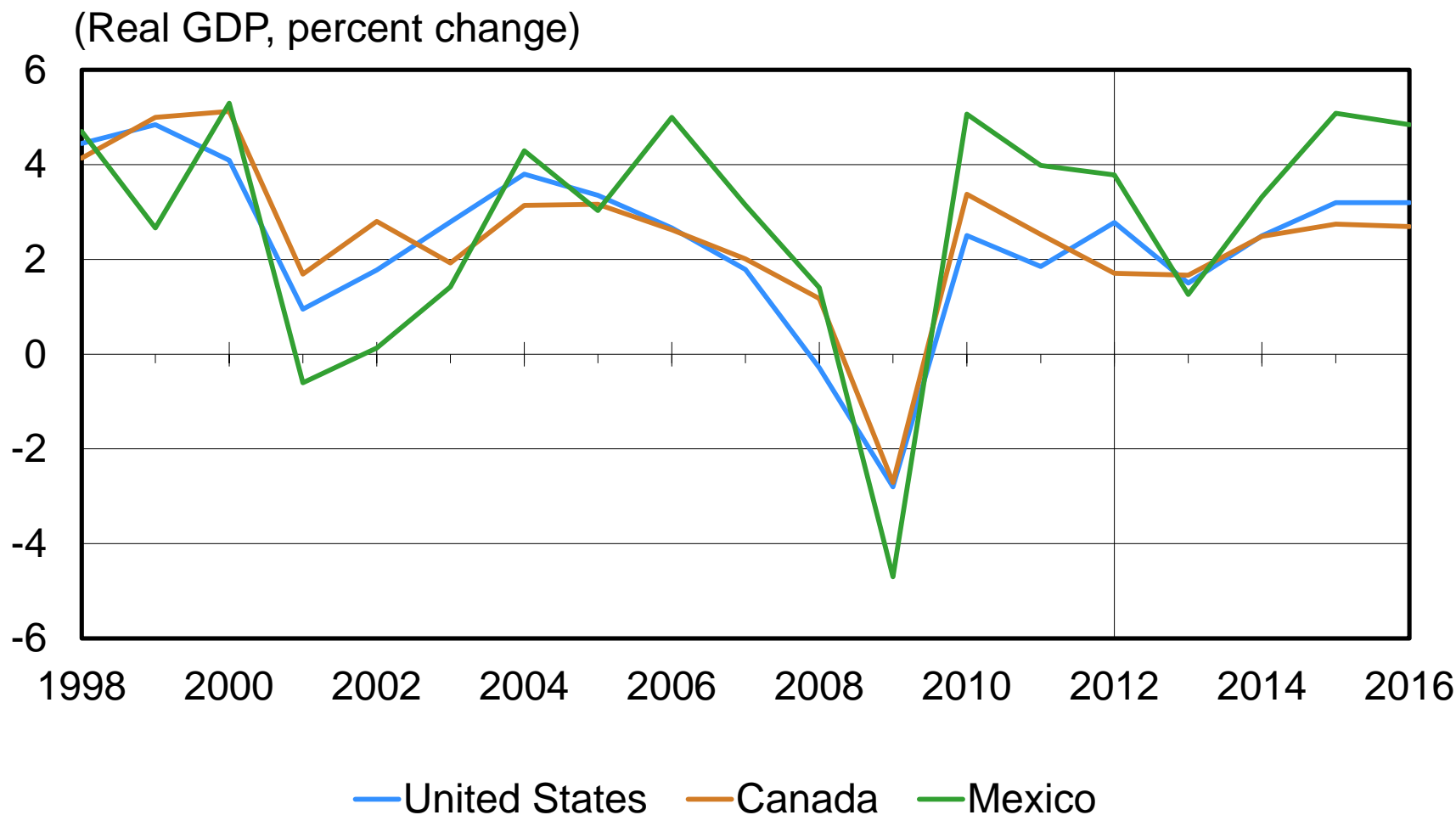
Demand in Brazil moves to the beat of tax & credit policy



South America Light Vehicle Sales



North American Business Cycles are Synchronized



U.S. Economy

- Probability of a Recession - 20%



(Percent unless otherwise noted / November 2013)

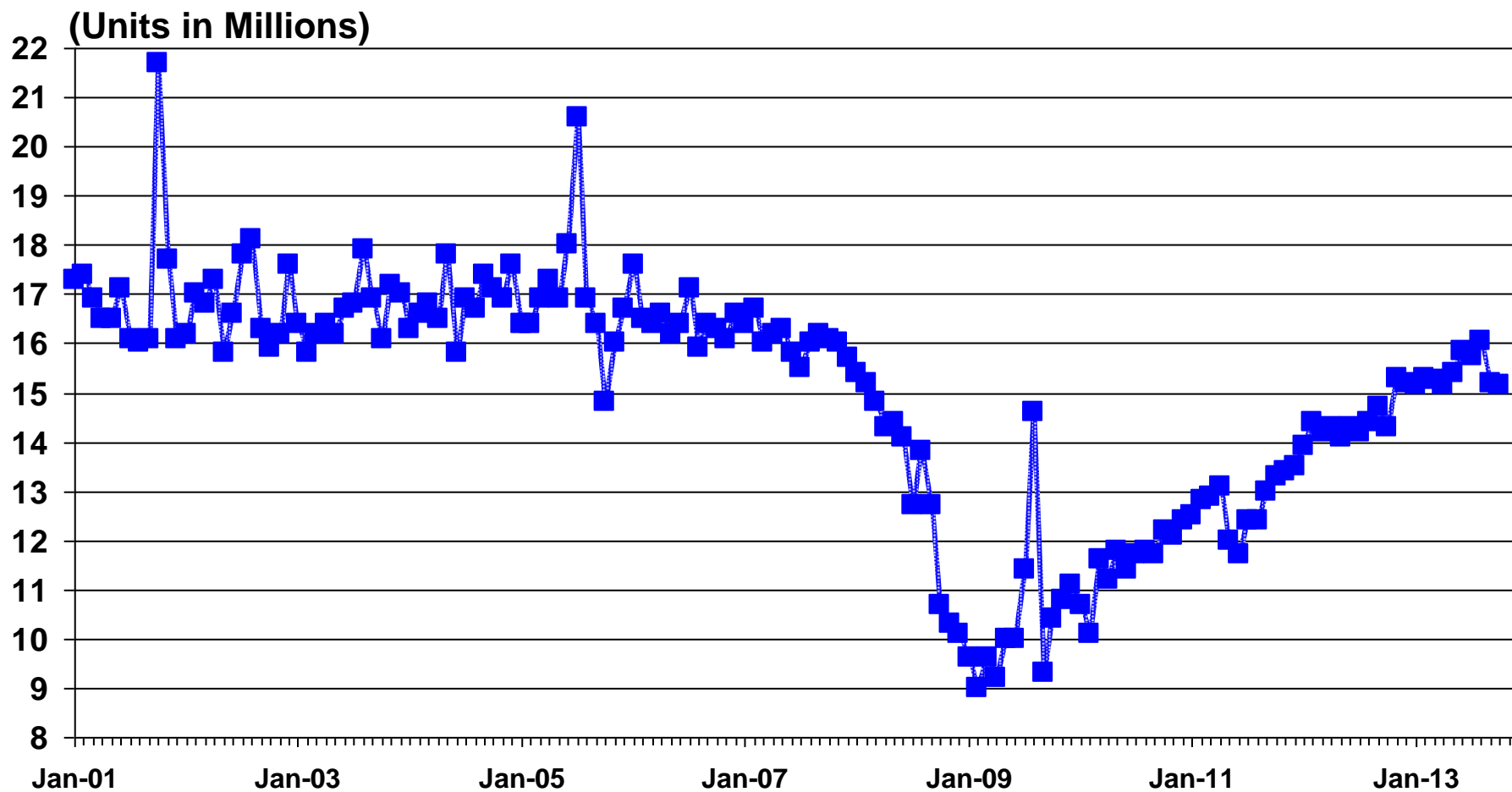
	2012	2013	2014	2015
Real GDP Growth	2.8	1.7	2.3	3.1
Employment Growth	1.7	1.6	1.6	1.8
CPI Inflation	2.1	1.4	1.4	1.7
Oil Prices (Brent, US\$/bbl)	112	108	104	99
Housing Starts - mm	0.8	0.9	1.1	1.5
Federal Funds Rate	0.1	0.1	0.2	0.4
Dollar (Major Trading 2005=1)	0.95	0.98	0.98	1.00



US - Auto Market Overview - Signs of a Breakout

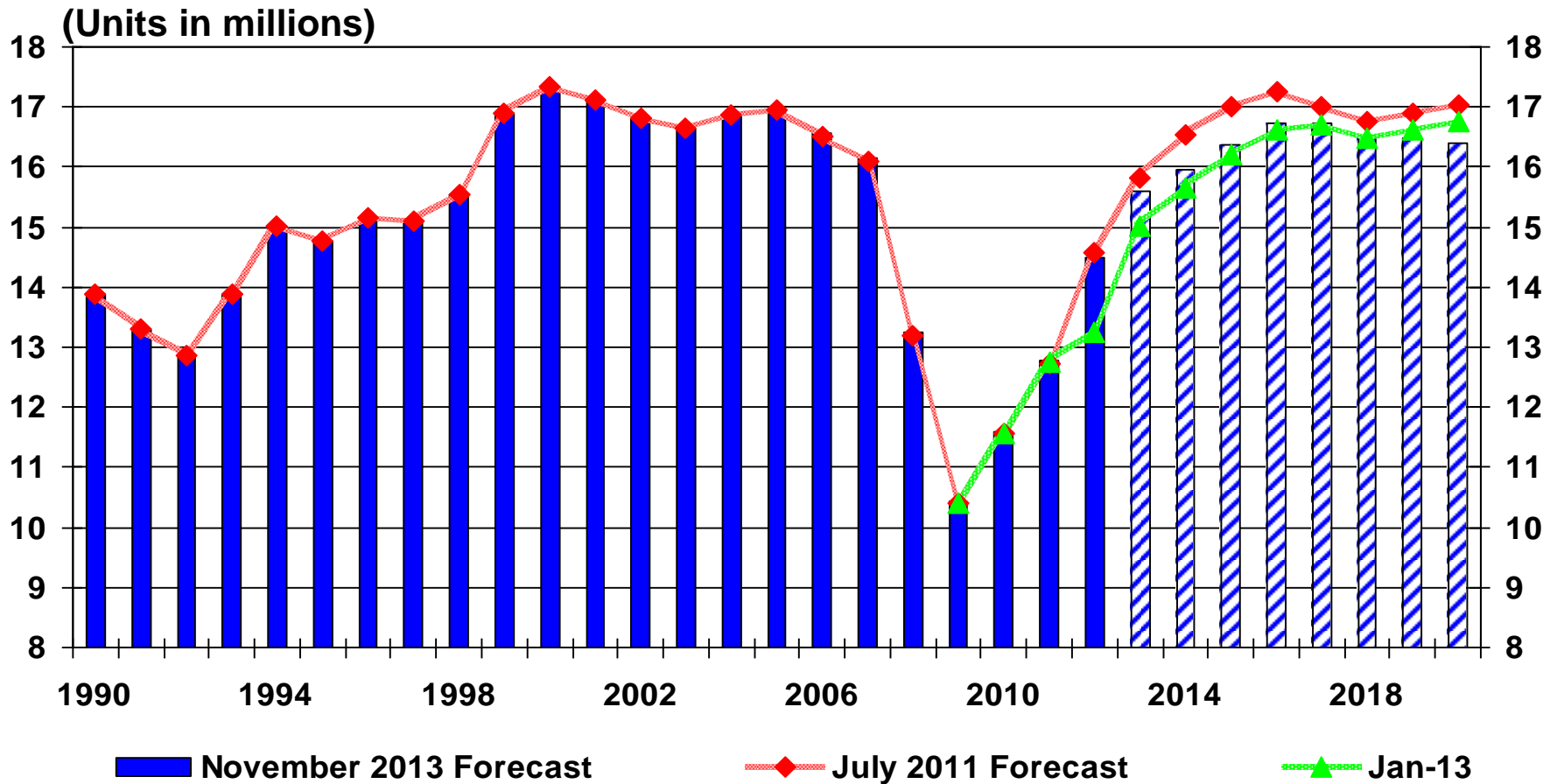
- The auto market has been a stellar performer in a lackluster economy.
- Pent – Up demand is driving the auto recovery; and unless the economy deteriorates, sales will remain strong.
- Currently we estimate pent–up demand at 8 mm units
- In August the SAAR broke the 16 mm unit barrier for the first time since the end of 2007, without much effort, little pay-back is expected.
- Retail not fleet sales continue to drive the market.
- The weak Yen gives the Japanese OEMs more fire power, but we don't expect an all out price war.
- Incentives are now being used tactically, transactions prices remain strong.
- Auto credit quality is excellent and availability is improving.
- Inventory remains under control.
- The used car and truck market will remain strong.
- Cost pressures are easing and industry profits in North America are good.
- Production will be stronger than sales.
- Reduced estimates of population growth, especially for Gen Y, limits future auto demand.

United States — Light Vehicle Sales, SAAR

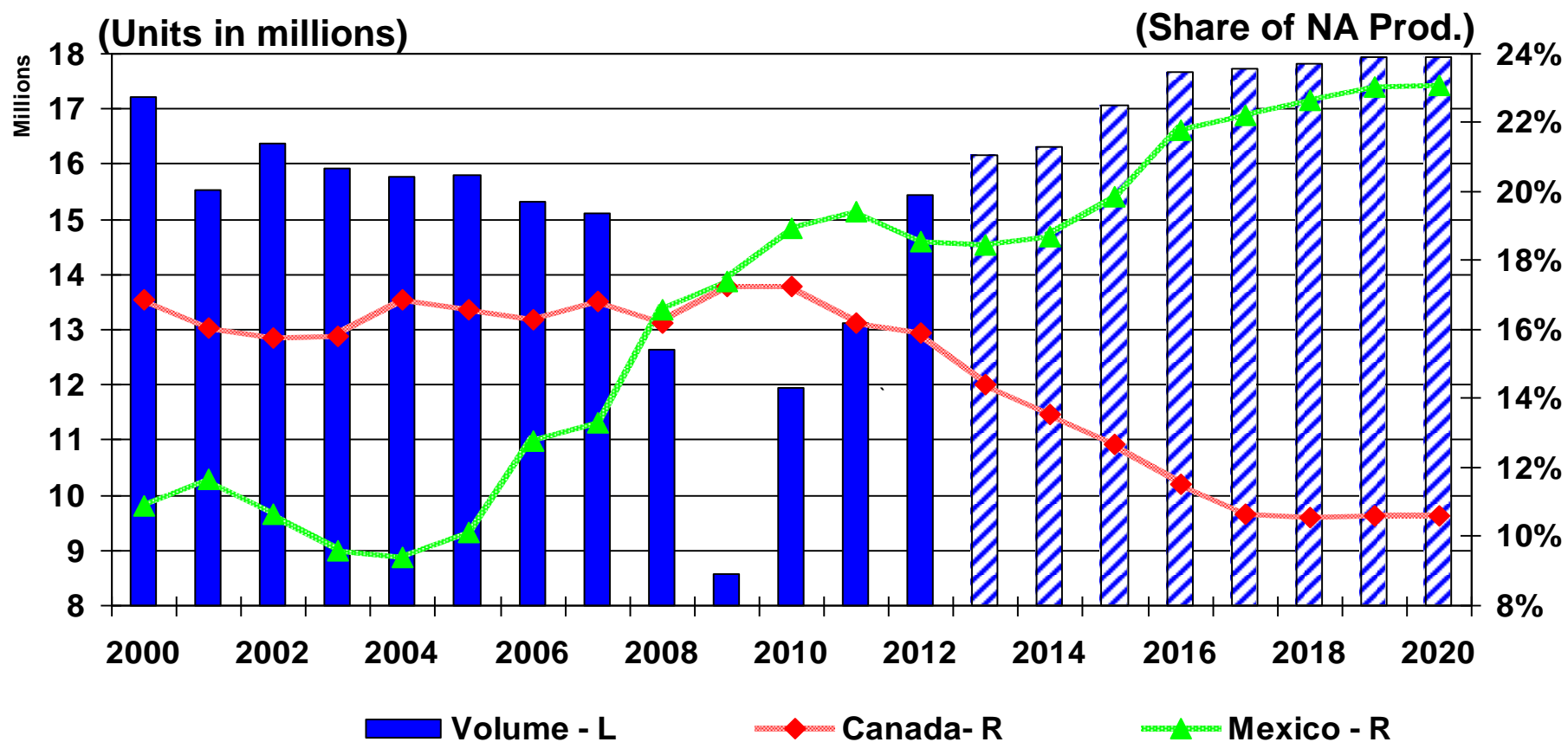


U.S. Light Vehicle Sales

2008: 13.2M units
 2009: 10.4M units
 2010: 11.6M units
 2011: 12.7M units
 2012: 14.5M units
 2013: 15.6M units
 2014: 15.9M units
 2015: 16.3M units



North America - Light Vehicle Production





Global Autos - Bottom Line

- Global growth prospects remain at risk, uncertainty and volatility continue to increase, but we have become better at coping with risk.
- Both the short run outlook and long-term potential have been scaled back over time, new forecast TIV is about 1 mm units less than last.
- Biggest threats to the global recovery still are the “U.S. Fiscal Fiasco” and the European sovereign debt crisis, but the Mid-East has re-asserted itself.
- Tapering and structural issues have taken some of the steam out of the emerging markets.
- Global platform consolidation and economies of scale vs. highly diversified product portfolios is needed to remain competitive.
- Investment in the auto sector is a major driver in emerging economies.
- Growing evidence suggests multiple pressures could begin to converge with the potential to pre-empt a “peak car” world that could be more pervasive in our long-term future than generally expected by the industry, although there is a big cyclical piece to this trend as well.
- Yet, despite this, the Global Auto Industry is in the best shape ever to not only withstand adversity, but to prosper.



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Thank You for Participating



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