

# **Ian Henry**

# **AutoAnalysis**

***Presentation to:***  
***Welsh Automotive Forum***  
***Bridgend***  
***March 10, 2016***

# Ian Henry, AutoAnalysis

- 30 years in automotive market analysis
- Specialist in European production forecasting and supply chain analysis
- Selected clients:
  - Ford, Lotus, Mercedes, Tofas
  - Aisin, Autoliv, Faurecia, JCI, Tata, TRW
  - SMMT, AIO, RBS, Nomura
- Write for: [automotiveworld.com](http://automotiveworld.com), [just-auto.com](http://just-auto.com), [supplierbusiness.com](http://supplierbusiness.com)

# SMMT Production Outlook Service

- Quarterly report, for last 10 years – available free to SMMT members!
- 5-year production forecast by model/plant or brand/country
- New model launches and vehicle manufacturer strategies
- UK's position vs. rest of Europe
- ***First person to suggest could reach 2m upa***
- Carried out first SMMT survey before BIS work on increasing UK sourcing

Ian Henry, AutoAnalysis, March 2016

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# Key points from December 2015 Production Outlook report

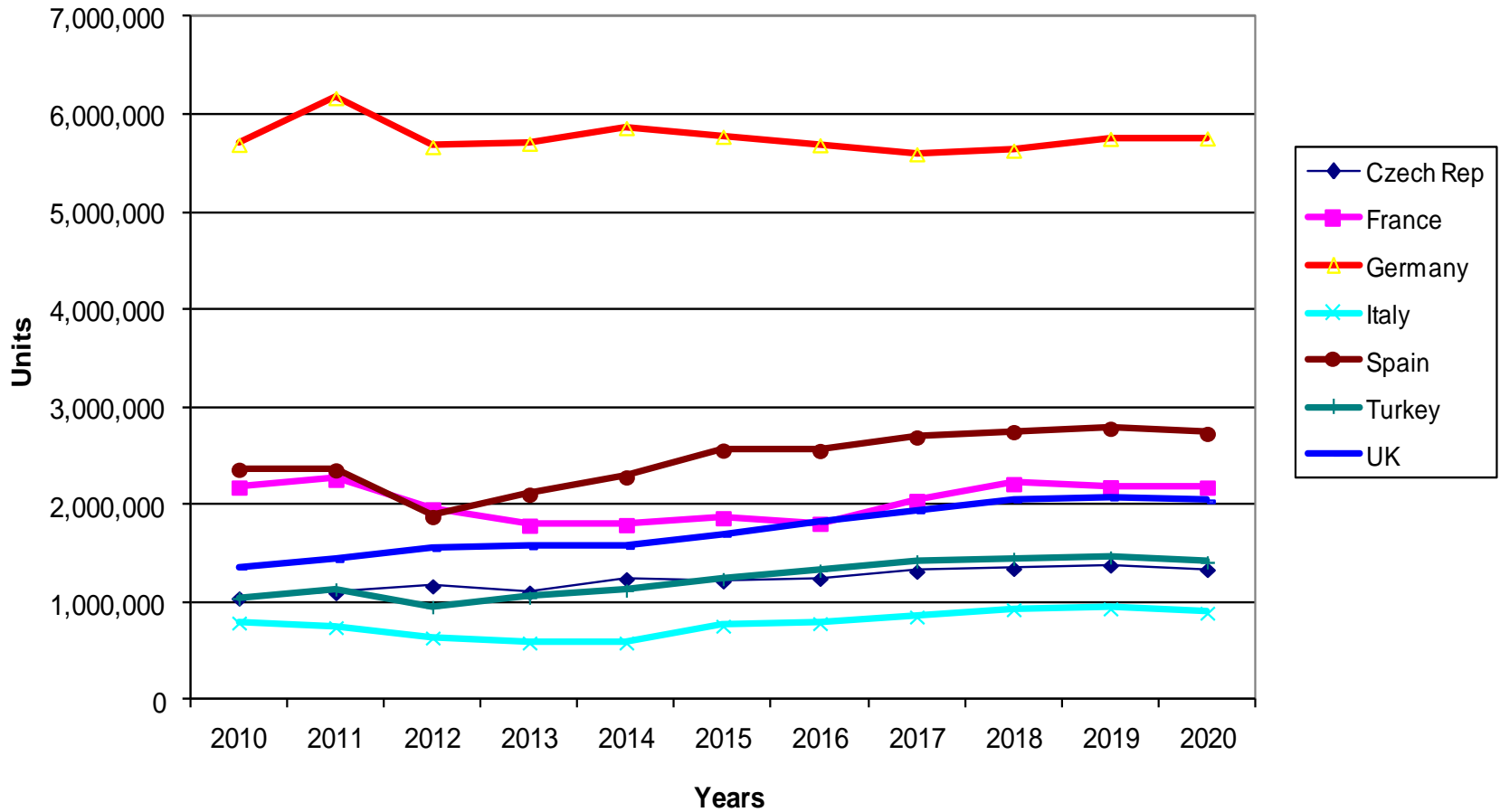
- European light vehicle production now in recovery
- Total should reach 19.5m in 2016, 21m by 2020
  - **This is 8-10% down on early 2015 forecasts**
  - Could fall further if China and North America stall
- Germany still the powerhouse of European vehicle production
- Spain no. 2 in car production; rising VM/supplier investment
- UK & France battle for 3<sup>rd</sup> place; UK > France in car output:
  - **UK = 1.6m cars and LCVs in 2015, up 1.6% (cars only up nearly 4%)**
- French VMs shifting production to Spain, Slovakia and Turkey
- Rising production locations: Czech/Slovakia, Hungary, Turkey; and Morocco

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# Primacy of German production

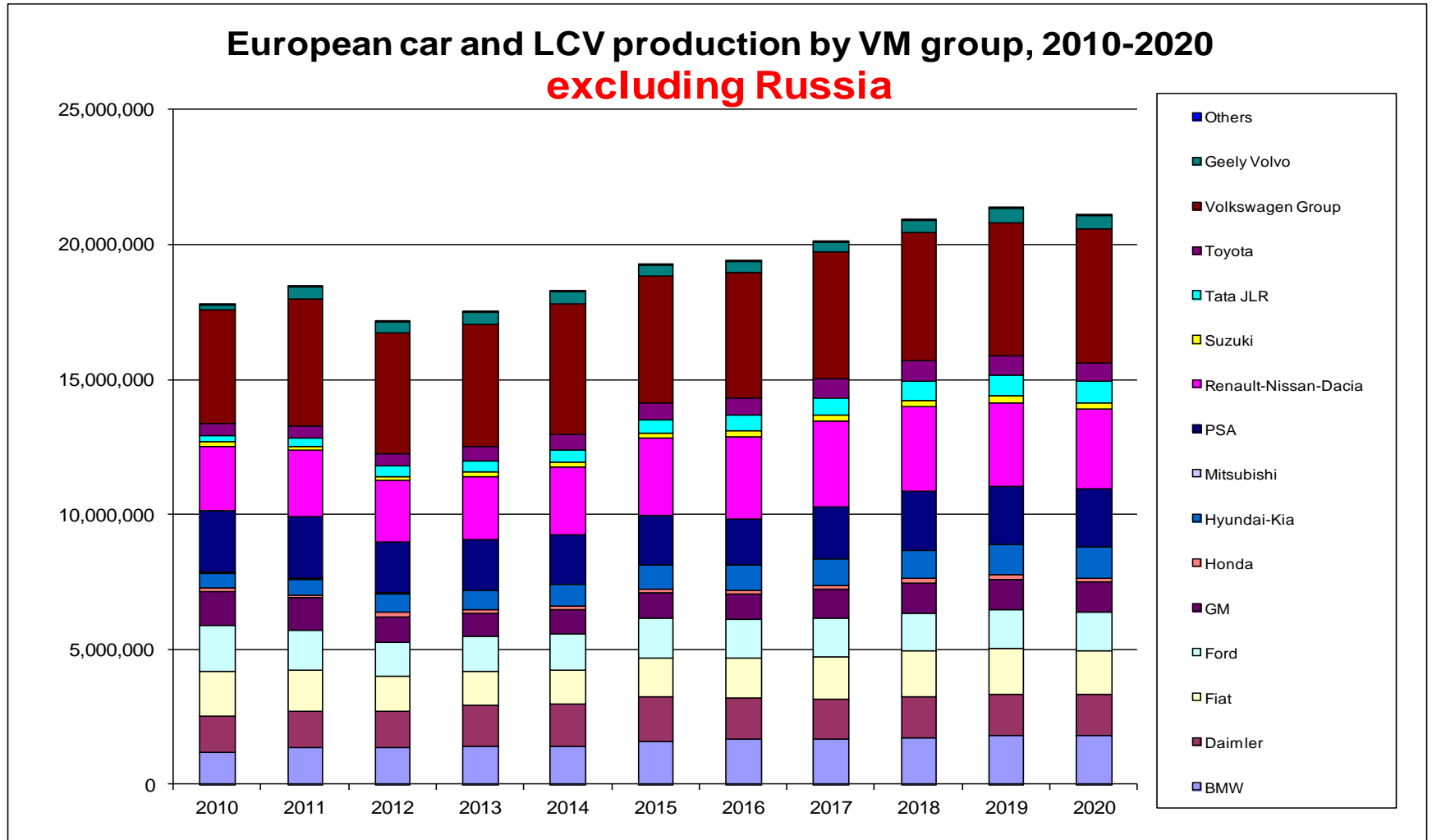
## Production Volumes 2010-2020: Major Countries



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# European production by VM



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# European prospects for 2016

- Core European production (excl. Russia) should reach 19.4m in 2016 and c21m by 2018
- Germany will remain powerhouse of European production, c6m pa:
- **Rising production by German brands outside Germany; decline at VW?**
- Spanish production >2.5m pa following recent investment; unlikely to meet government aim of 3m pa
- UK car and LCV production on target to exceed 2m by 2018
- UK car production now exceeds France (France produces many more vans than UK) – this should continue
- Further production growth expected in Turkey, Hungary, Czech, Slovakia and UK; and with Citroen revival, rising van production at Renault, France will recover to 2010 volumes by 2020

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# Production continues to head east

- Renault has switched most Clio production to Turkey, PSA much of 208 to Slovakia, with ***all of new*** C3 to follow
- Mercedes and Audi increasing production in Hungary; ***Mercedes will use Valmet in Finland for GLC SUV***
- Fiat will make Punto replacement in Poland, and Tipo in Turkey
- Toyota adding C-segment SUV/crossover to Turkey
- Hyundai expected to add a new plant or expanded current factory in Turkey, boosting Turkish output over 1.5m
- Czech Republic production rising to 1.3-1.4m
- Slovakia will exceed 1m by 2017
- ***Romanian production appears to have peaked – Ford B-Max production falling and most Dacia Sandero production switched to Morocco; Ford will likely add Ka or B-SUV at end of decade***
- Spain continues to win new production contracts – Audi A1 from 2018, but Polo SUV will be made in Portugal

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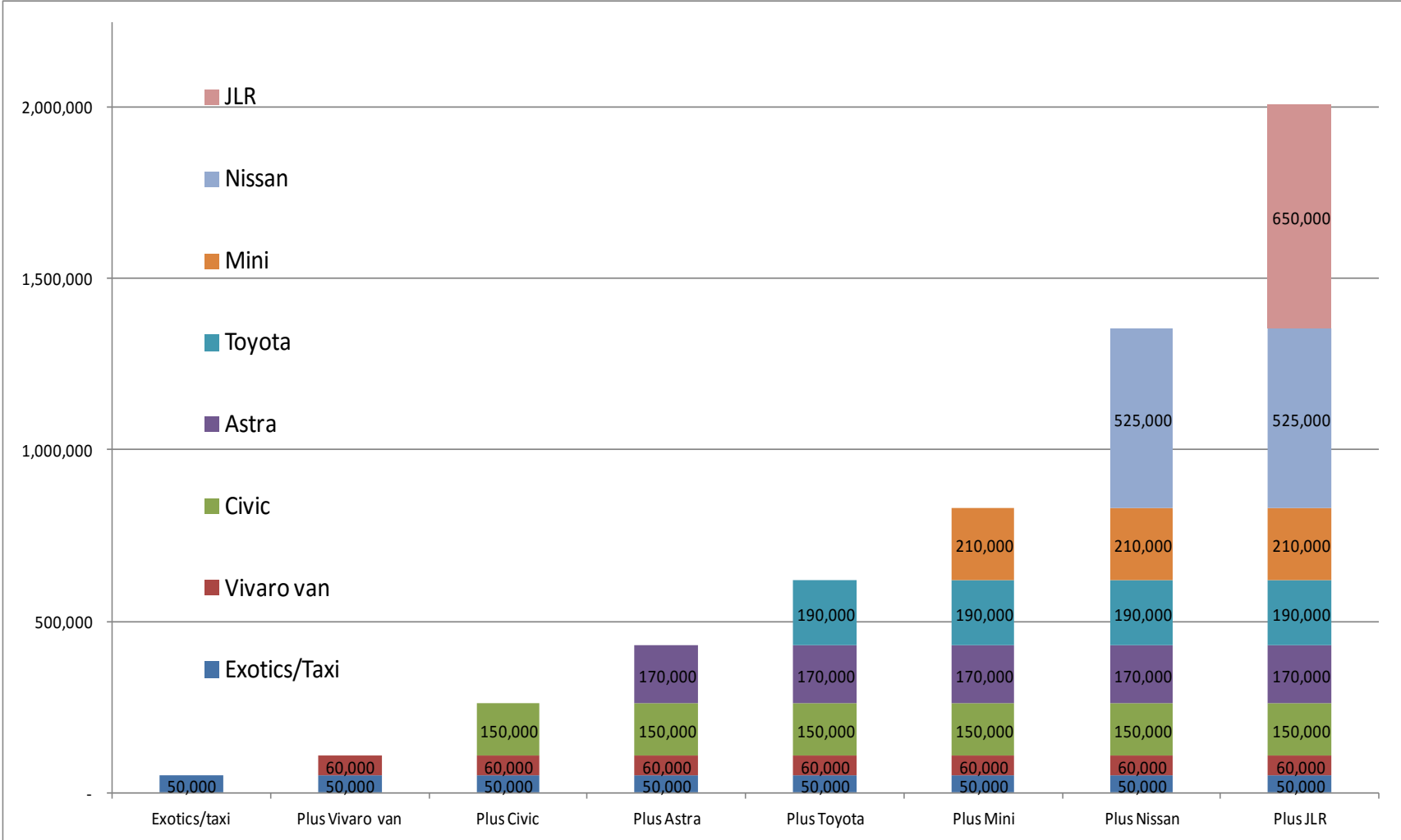
# UK's automotive prospects

- Very good, **assuming no EU exit**
- 2m vehicles a year by 2020?
- Rising production volumes and UK content
  - New JLR models >50% content
  - New Astra doubled UK content
- 2.5m engines pa, heading to 3m:
  - £450m expansion of JLR engine plant announced 11/2015
- UK to be Geely R&D centre
- Honda increasing employment for new Civic
- AIO/UKTi, regional bodies and SMMT successfully pushing UK's case of investment much more forcibly than before
- Supported by increasing willingness of VMs to source in UK

# Will UK still get to 2m pa?

- Clear potential exists for this to be achieved ...
- Allocation of global supply for new Honda Civic, strong performance by Vauxhall Astra and new platform models at Toyota expected
- UK needs Nissan to maintain current production and ...
  - Mini to achieve full utilisation at Oxford
  - New JLR models to continue to be launched this decade
- If EU recovery continues and Chinese economic collapse **and Brexit** are averted:
  - 2m pa target is achievable and realistic – with substantial opportunities for suppliers ...

# How the UK can get to 2m pa?



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# Key UK auto developments

- BIS identified **UK£4bn** worth of annual sourcing opportunities; £2bn at tier 2s
- UK content of UK built vehicles rising – now 41%, **still some way to go to reach Germany's 60%!**
- Discovery Sport, Jaguar XE and F-PACE each worth c£3.5bn to UK suppliers:
  - Astra providing £1.4bn lifetime boost to supply chain
  - Expansion of JLR engine production, commitment to new Juke and SOP of Infiniti models also mean major business for UK suppliers
  - New press line at Nissan
- Significant recent investment by major tier 1s: Borg Warner, Brose, Calsonic, Draxlmaier, Gestamp, Getrag, Lear, Plastic Omnium, Tenneco and TRW
- ***Automotive Investment Organisation secured c250 automotive projects in first two years of operation, creating or securing over 15,000 manufacturing jobs; more to follow.***
- ***And Aston Martin coming to Wales!***

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# Good news for Wales

- **Aston Martin**

- DBX production to start 2020
- 1,000 new jobs in Wales/Gaydon, more in supply chain
- Production – 5,000+?
- Premium cars, halo effect

- **TVR**

- New plant near Aston Martin appears highly likely

# What could go wrong?

## ■ **Politics:**

- **UK EU referendum:** how would UK auto investment be hit by a 'Brexit'?
- **Middle East/refugee crisis:** will Schengen agreement survive?
  - Impact of border controls on industry logistics

## ■ **Economics:**

- **Low oil price:** benefits consumers, but ...
  - Risk of wider damage to economy and government tax revenues?
- **Interest rate rise in 2016?** Impact of rise on consumer indebtedness ...
- **China slowdown**

## ■ **Long term impact of VW diesel scandal:**

- Permanent move away from diesel? Over what time?
- Who will benefit from VW's troubles?

# Brexit and UK auto industry

- SMMT survey:
  - Industry generally very pro remaining in EU
    - 83% large cos, 73% SMEs want to remain
- Industry need continued EU market access:
  - Nearly 58% exports to EU; USA = 11%, China 7%
- VM opinions
  - JLR CEO signed Times letter, pro EU
  - GM pro EU statements at Geneva
  - BMW and Toyota warning re rising costs
  - Nissan wants UK to remain
    - EU “makes the most sense for jobs, trade and costs”
    - Has major UK investments to protect

# China

- Growth falling to **just** 6-8% pa...
- Falling Chinese sales hit JLR directly:
  - Looking for £4.5bn cost saving by 2020
  - 9M 15/16 – revenue down, profits down 5.1%, although unit sales rising
    - Increasing proportion of smallest models
  - China = 20% of sales, **but estimated 80% of profits**
- Rolls Royce, Bentley & London Taxi reliant on China
- Other VMs have very limited, if any, exposure to China



# In conclusion

- **Brexit uncertainty looms over industry**
- VMs clearly want to stay in EU
- Rapid de-investment unlikely if a Brexit vote. **But:**
  - *Difficult to see significant new investment by any major VM*
  - *Risk of stasis and decline, especially at mid-market brands*
  - *Potential EU market access restrictions would hit ability of industry to reach 2m units pa*
- Premium brands less likely to be hit by Brexit due to global markets