AUTOMOTIVE

2017: Bumpy road ahead
Global automotive outlook

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Time for a fundamental reset?!

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Real GDP growth in major economies

Real GDP					
Percent change	**2014**	**2015**	**2016**	**2017**	**2018**
World	**2.8**	**2.8**	**2.5**	**2.9**	**3.1**
United States	2.4	2.6	1.6	2.3	2.6
Canada	2.6	0.9	1.4	2.3	2.4
Eurozone	1.2	1.9	1.7	1.6	1.6
United Kingdom	3.1	2.2	1.8	1.6	1.2
China	7.3	6.9	6.7	6.5	6.2
Japan	0.2	1.2	1.0	1.1	0.9
India	7.2	7.9	6.7	7.2	7.4
Brazil	0.5	-3.8	-3.5	0.3	1.8
Russia	0.7	-2.8	-0.2	1.0	1.7

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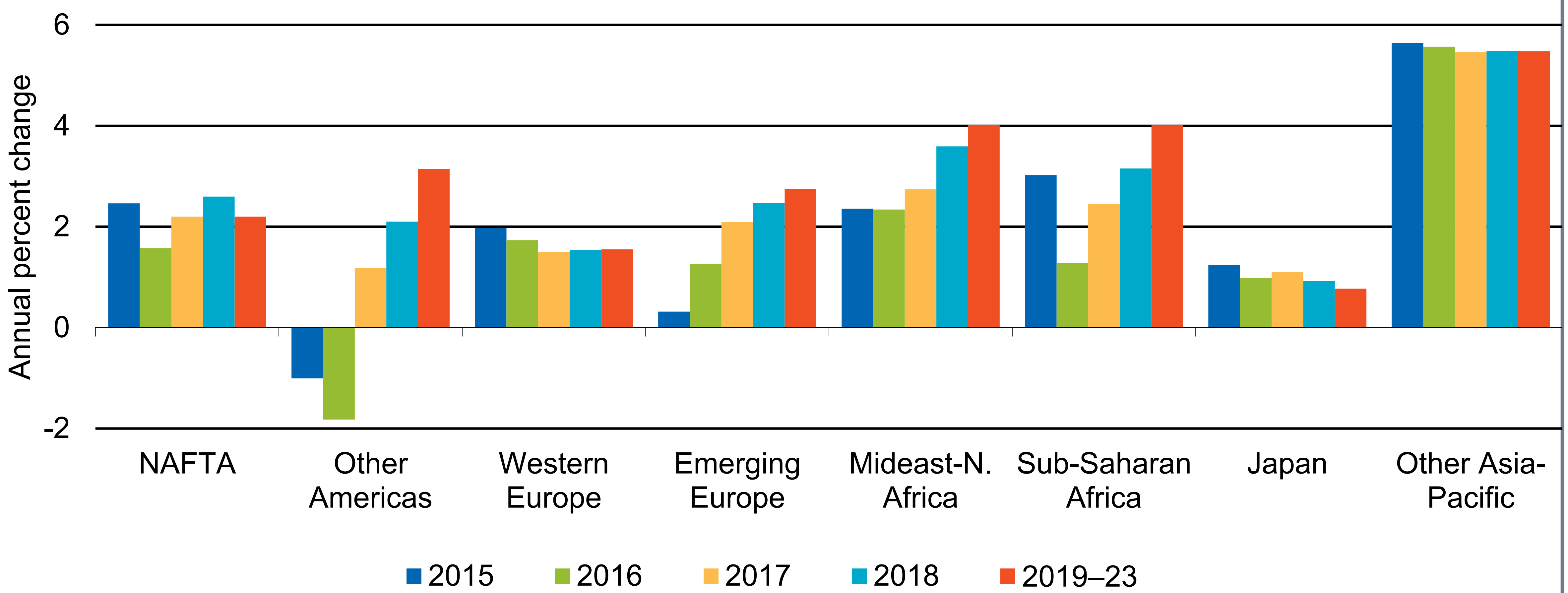
Asia-Pacific (excluding Japan) will achieve fastest growth in real GDP

Real GDP



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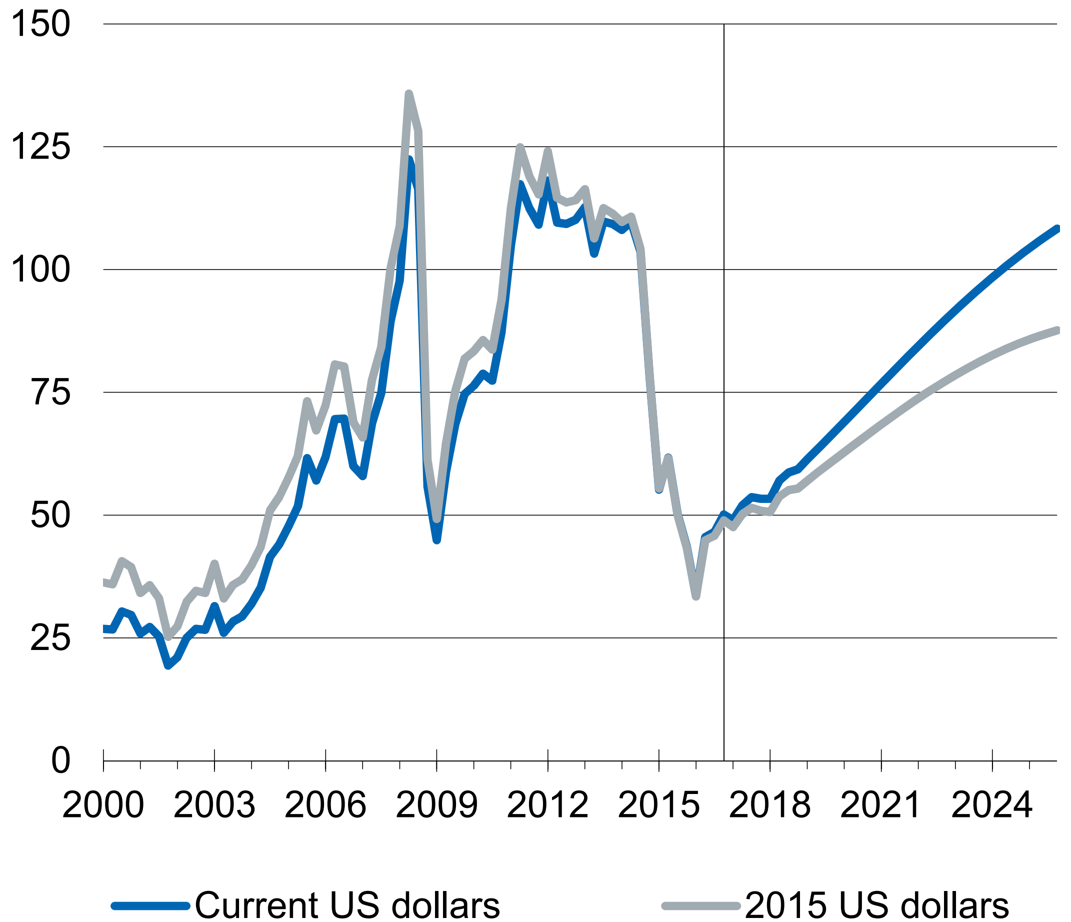
Crude-oil prices will gradually recover

Brent Blend crude-oil price (USD/barrel)



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- In a six-month accord that takes effect in January, OPEC agreed to cut its production by 1.2 million barrels per day (b/d). Russia's energy minister announced a reduction of 300,000 b/d.
- The US onshore oil industry is proving effective at cutting costs and achieving efficiencies. US crude-oil production has bottomed in fourth-quarter 2016 near 8.6 million barrels a day (MMb/d) and will increase by about 400,000 b/d during 2017.
- Under a Trump administration, reduced regulation, fewer hurdles for pipeline construction, and an opening of public lands to exploration and production could lead to higher-than-expected oil and gas supplies.
- The price of Dated Brent crude oil is projected to increase from USD44/barrel in 2016 to USD54 in 2017 and USD57 in 2018.

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Key challenges affecting the automotive outlook

1. **Global growth begins to pick up**
   Led by the United States and commodity-exporting regions balanced by Brexit-related uncertainties and Eurozone political concerns
2. **President Trump—a real wild card**
3. **“Brexit means Brexit”**
4. **China car tax incentives tapering for 2017–18**
5. **Demonetization/remonetization in India**
6. **COP21—Paris conference on climate change December 2015**
7. **Volkswagen emissions scandal—spotlight on diesel & RDE**
8. **Battery electric vehicles go mainstream (↑OEMs planning BEVs)**
9. **New mobility gaining traction and progress for autonomous cars**

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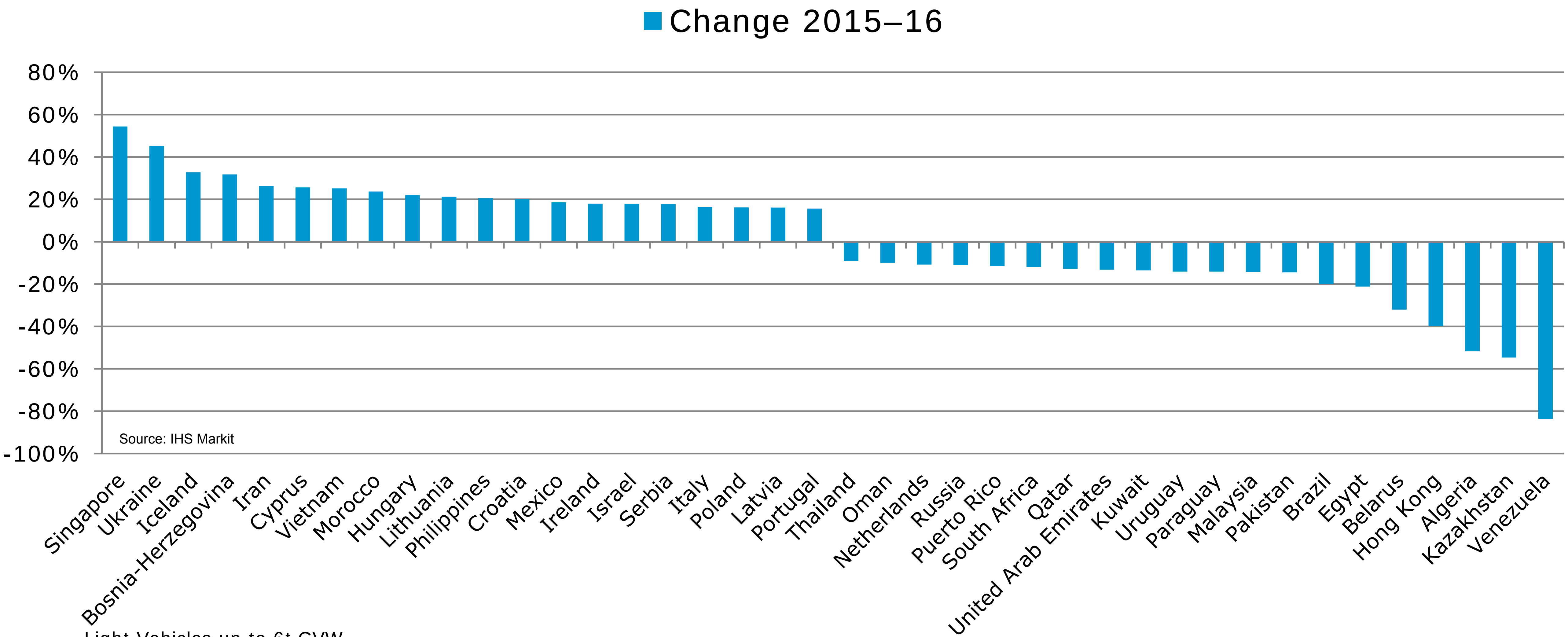
Top 20 winners and losers

Auto sales performance 2016 (Total light vehicle market)



Light Vehicles up to 6t GVW

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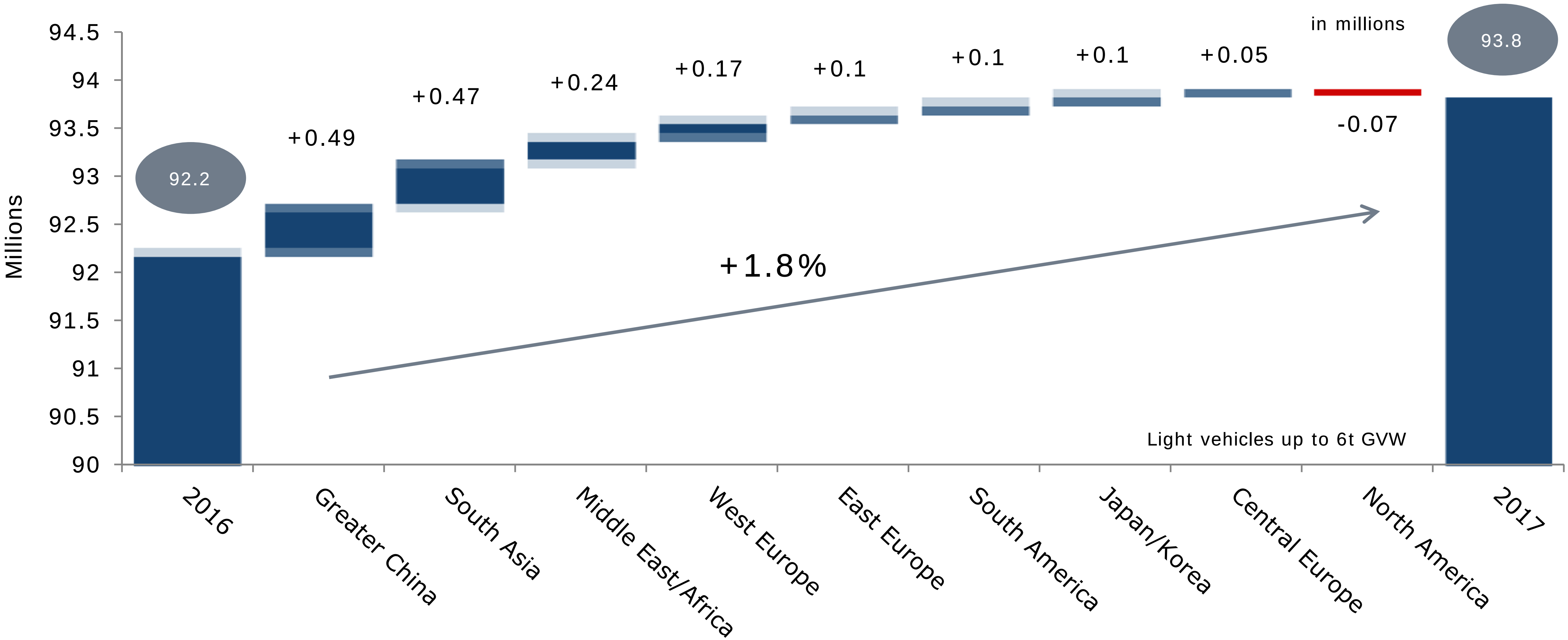
Global light vehicle sales 2017 outlook



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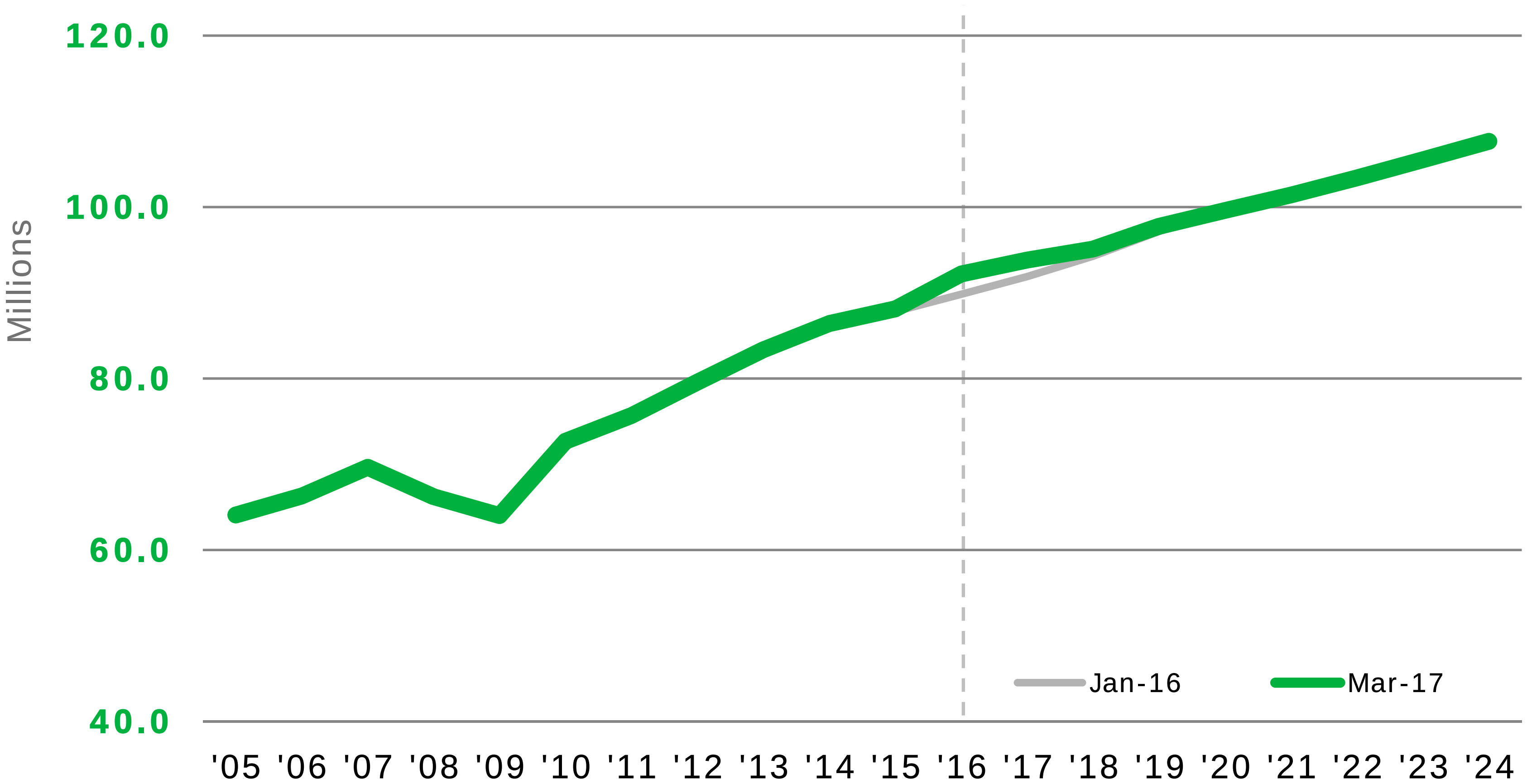
TIV: Global light vehicle sales

Forecast on track but near-term uncertainty for key regions



Source: IHS Markit

- **Trends**
  - Trump/Brexit impact adds to uncertainty
  - Cautious psychology for some in near term
- **2016–18**
  - USA wildcard for 2017, probably pauses for breath
  - Less net support from China
  - Europe cautious at best
  - EM “mixed bag”
- **Long term**
  - Maturing emerging markets means “new” car demand less of a driver
  - Future mobility

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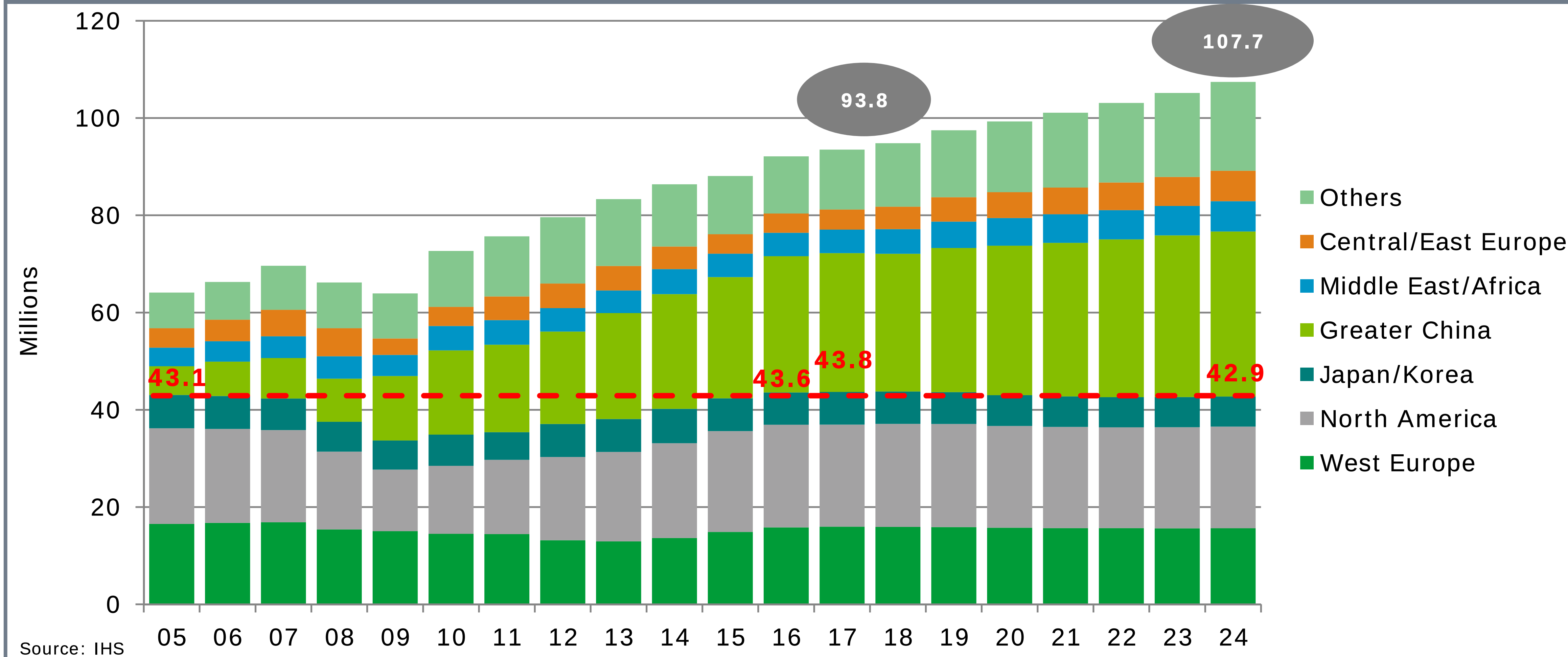
Global light vehicle sales outlook

Mature markets are forecast to stay at pre-crisis levels



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Light Vehicles up to 6t GVW

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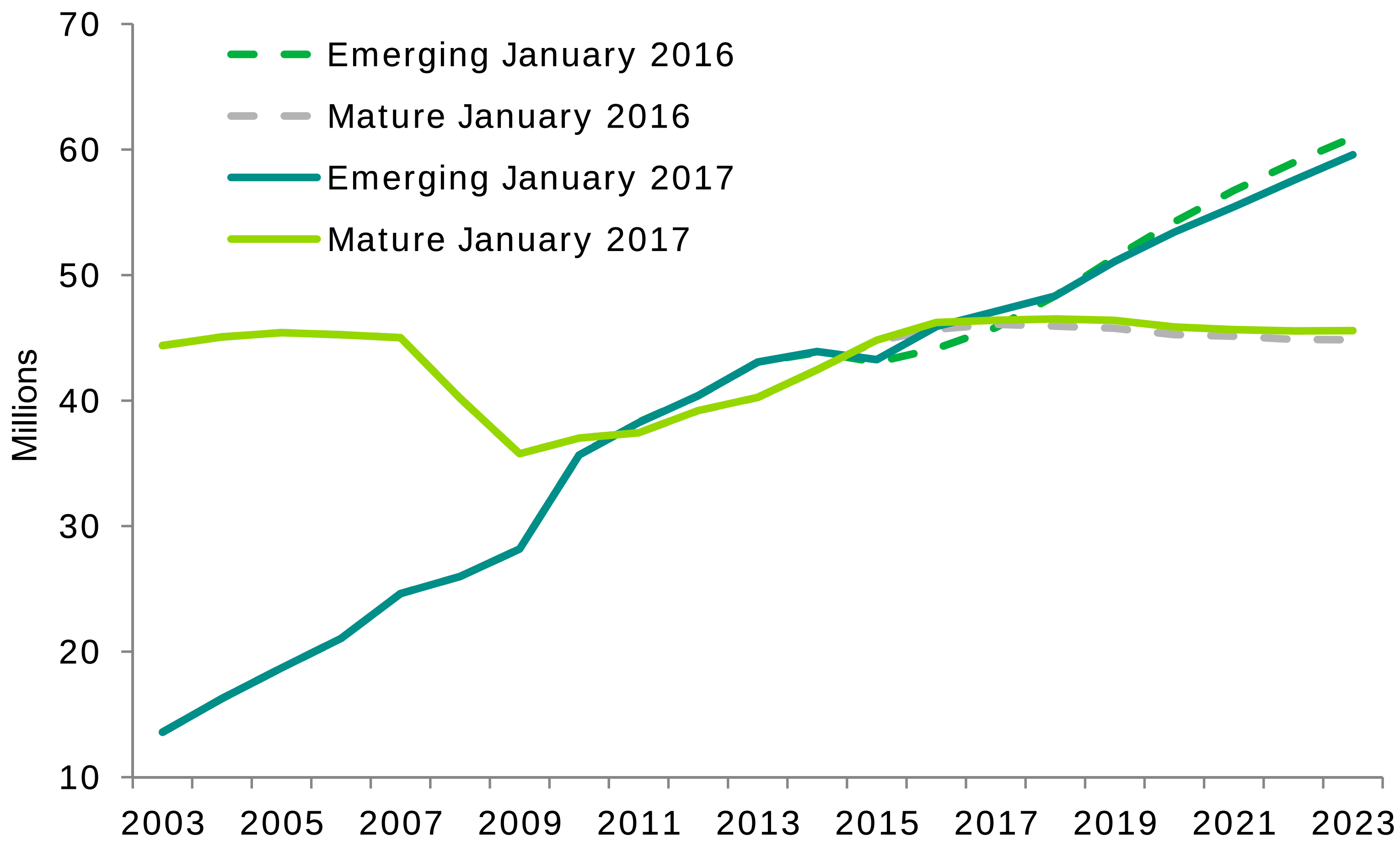
TIV: Global light vehicle sales—mature vs. emerging

Mild downgrade for potential of emerging markets



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- China's economic growth will slow further because of imbalances in credit, housing, and industrial markets, meaning less momentum behind autos sales growth.
- Political uncertainties could contribute to "oddball" phase of globalization. Also, the slow pace of economic reforms in many emerging-market economies is holding back income growth and car demand.
- Russia and Brazil will begin to recover in 2017, but deep economic crises have magnified impacts on car sales and both markets are unlikely to "snap back." Wide economic dislocation has a lasting and lowering effect on car market potential.
- Many mature markets have been running hot with quicker releases of pent-up demand from the recession/crisis years. Record low auto financing deals have helped fund this mini-boom. A Brexit handbrake could take the shine off the European outlook through 2017–19.

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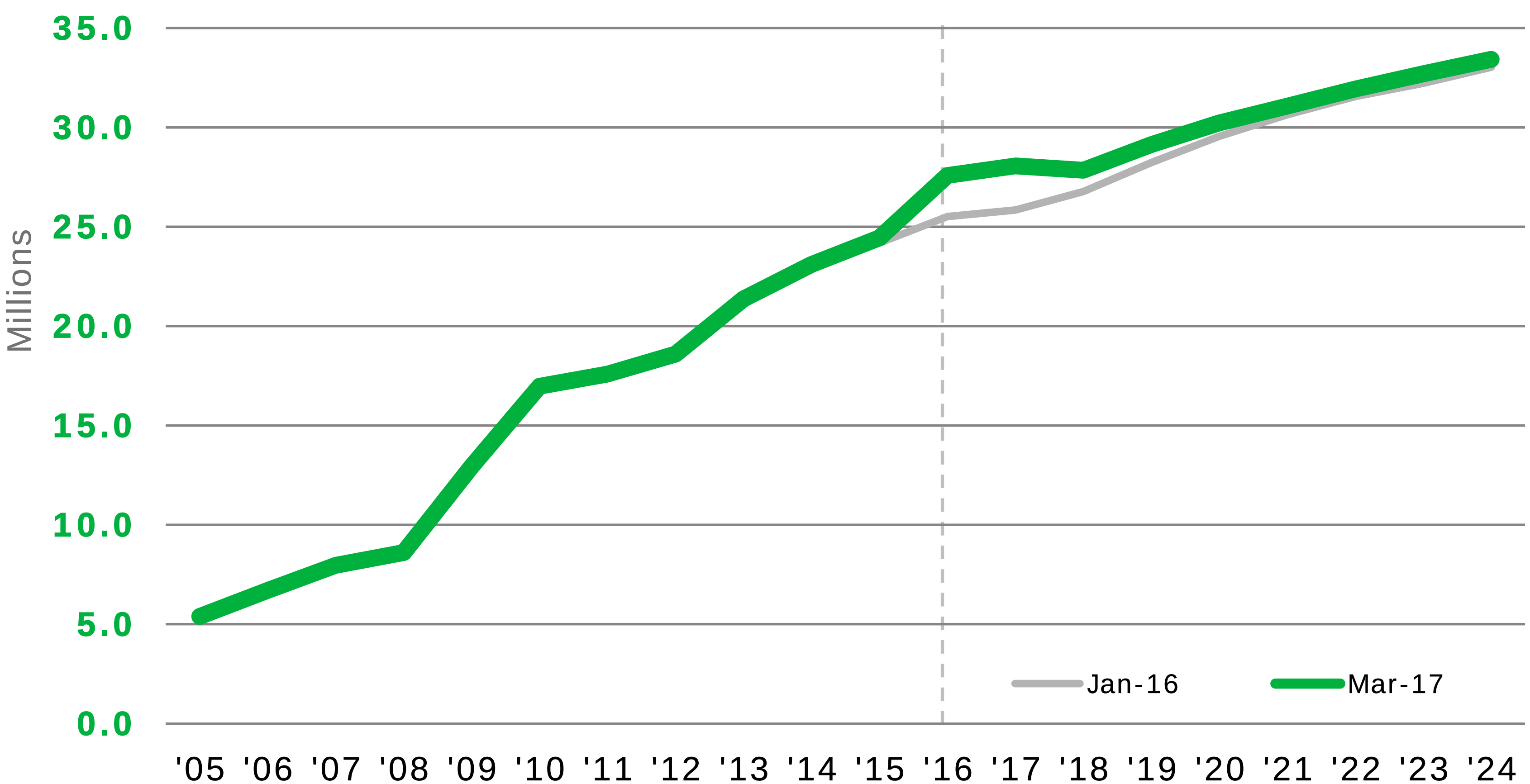
TIV: China light vehicle sales

Demand loses momentum as auto stimulus program tapers in 2016–18



Source: IHS Markit

- **Trends**
  - > Autos demand grows with subdued pace owing to slower economic growth
- **2016–18**
  - > Smaller car tax incentives rolled back (5% to 7.5%)
  - > Yellow label scrappage program ends
  - > Payback effect after smaller car tax incentives end
- **Long term**
  - > CAFC / NEV program
  - > Replacement demand evolves to half of demand
  - > Lower GDP trend level

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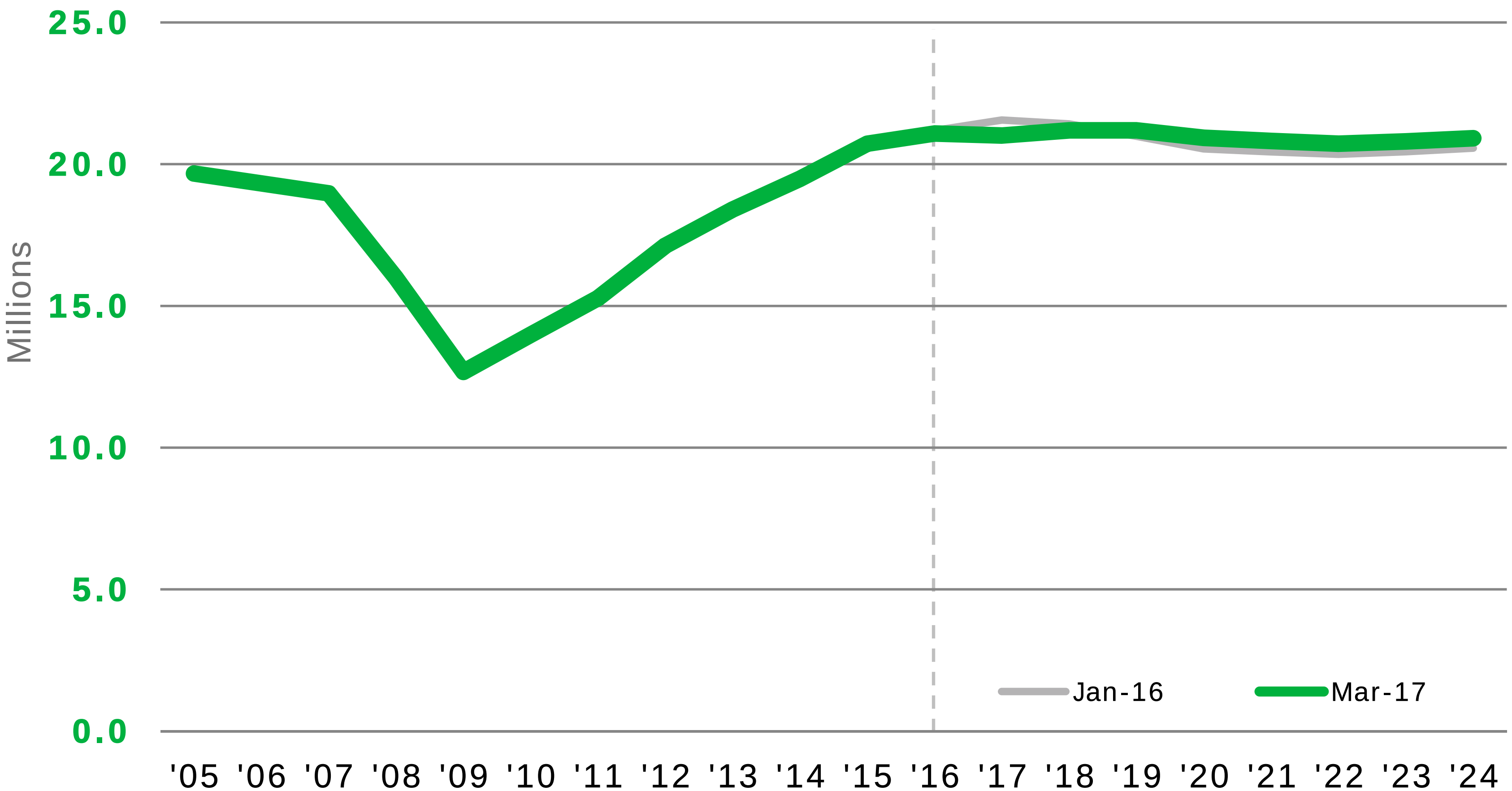
TIV: North America light vehicle sales

North America—baseline forecast March 2017



Source: IHS Markit

- **Trends**
  - > Emerging Trump Doctrine "America First"
- **2016–18**
  - > US sales volumes expected to slip 1% for 2017 (17.37 million) then re-accelerate for 2018
  - > US car-truck mix evolves further to trucks (2018 ↑ 63%)
  - > Canada softer demand in 2017 (1.9 million/-2%)
  - > Mexico on track for 1.7 million in 2017 (+6%)
- **Long-Term**
  - > Wildcards: EPA/CARB emissions rulings and trade

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Risks to the US forecast

Scenario	Characteristics
Recession induced by strained trade relations (Probability = 25%) *"Bad Trump"*	• Strained trade relations with Mexico and China undermine business confidence, investment, and productivity. • A major stock market correction, a surge in oil prices, and a weakening job market hurt consumer spending. • The US suffers a recession in the middle quarters of 2018.
Lower taxes and fewer regulations (Probability = 15%) *"Good Trump"*	• A rollback of regulations and lower corporate taxes result in higher capital spending and productivity. • Consumer and housing markets benefit from higher incomes and lower inflation and interest rates. • Stronger global economic growth helps exports.
Baseline forecast (Probability = 60%) *"Contained Trump"*	• The US Federal Reserve gradually raises interest rates through 2019. • Personal and corporate income tax rates are cut in 2018. • Consumer spending growth continues; capital spending on equipment and structures rebounds. • Global economic growth picks up moderately in 2017–18.

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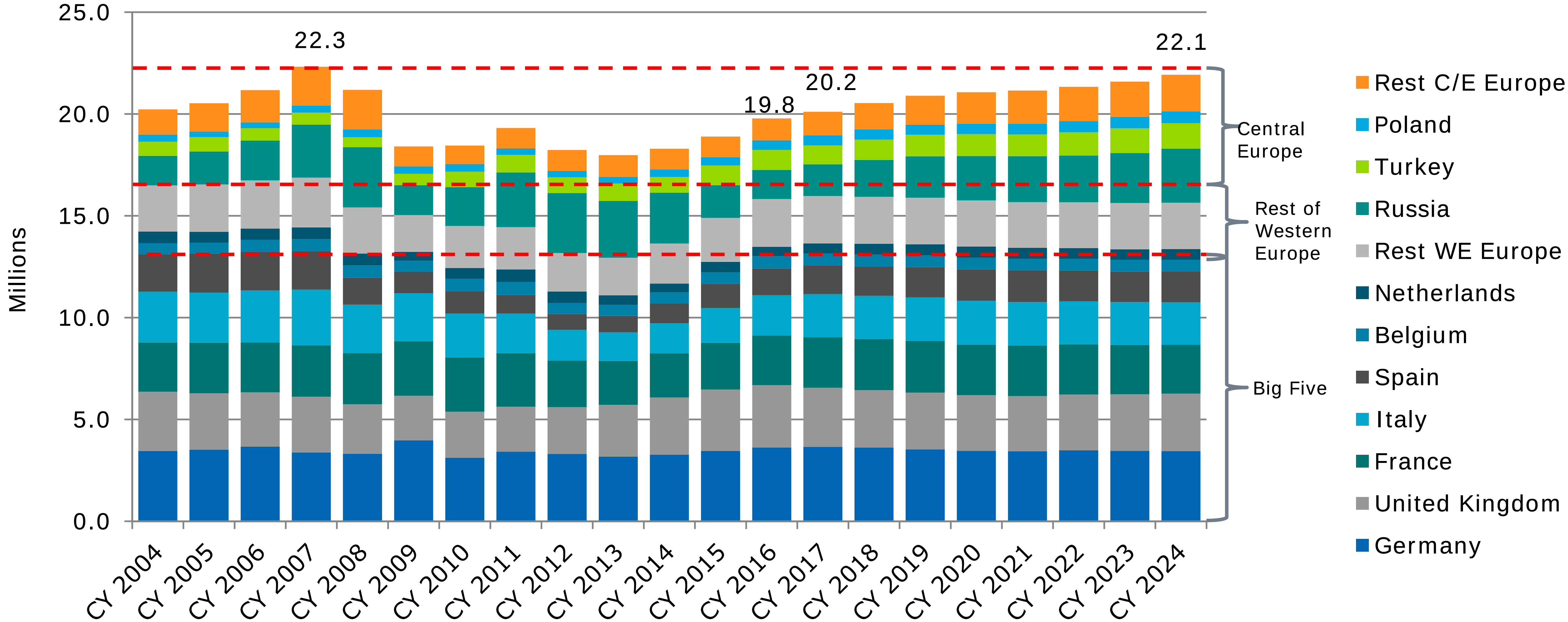
Long-term new vehicle sales growth in Europe



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Light vehicles up to 6t gross vehicle weight

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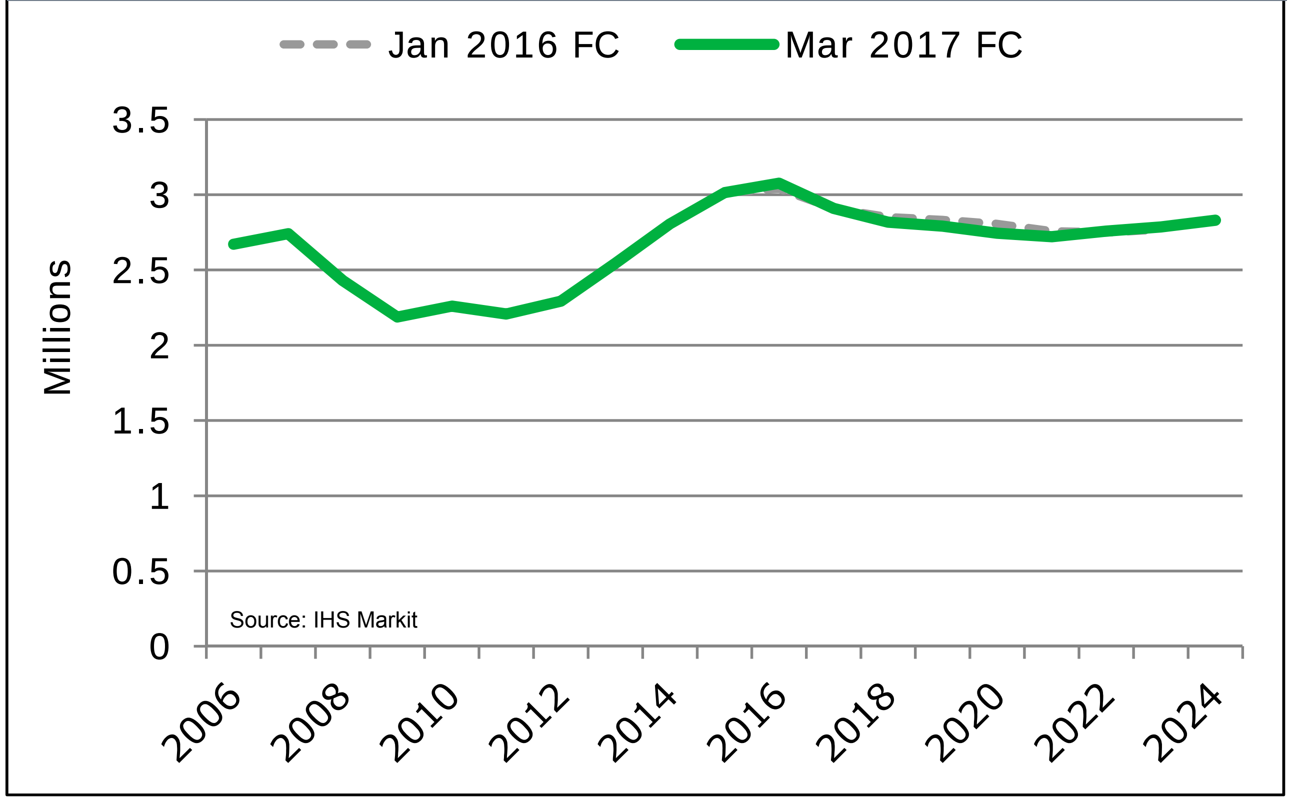
TIV: UK light vehicle sales

UK—"Brexit means Brexit"



There is a long, uncertain road ahead and many recently positive autos drivers are expected to turn negative. Autos demand stabilizes and normalizes once Brexit fog begins to lift; 2017–19 looks set to be quite a ride.

- The UK economy was resilient in the second half of 2016 led by robust gains in consumer spending.
- With rising inflation draining purchasing power, retail sales decreased in December and January.
- Economic growth is expected to slow in 2017–18 as uncertainty about Brexit dampens investment, hiring, and consumer spending.
- Under Prime Minister May's Brexit plan, the United Kingdom would leave the EU single market and customs union but seek the greatest possible market access on a reciprocal basis.
- As Brexit triggers capital flight, sterling will depreciate to a low of USD1.12, fueling inflation. Once trading relationships are clarified, the currency will recover.

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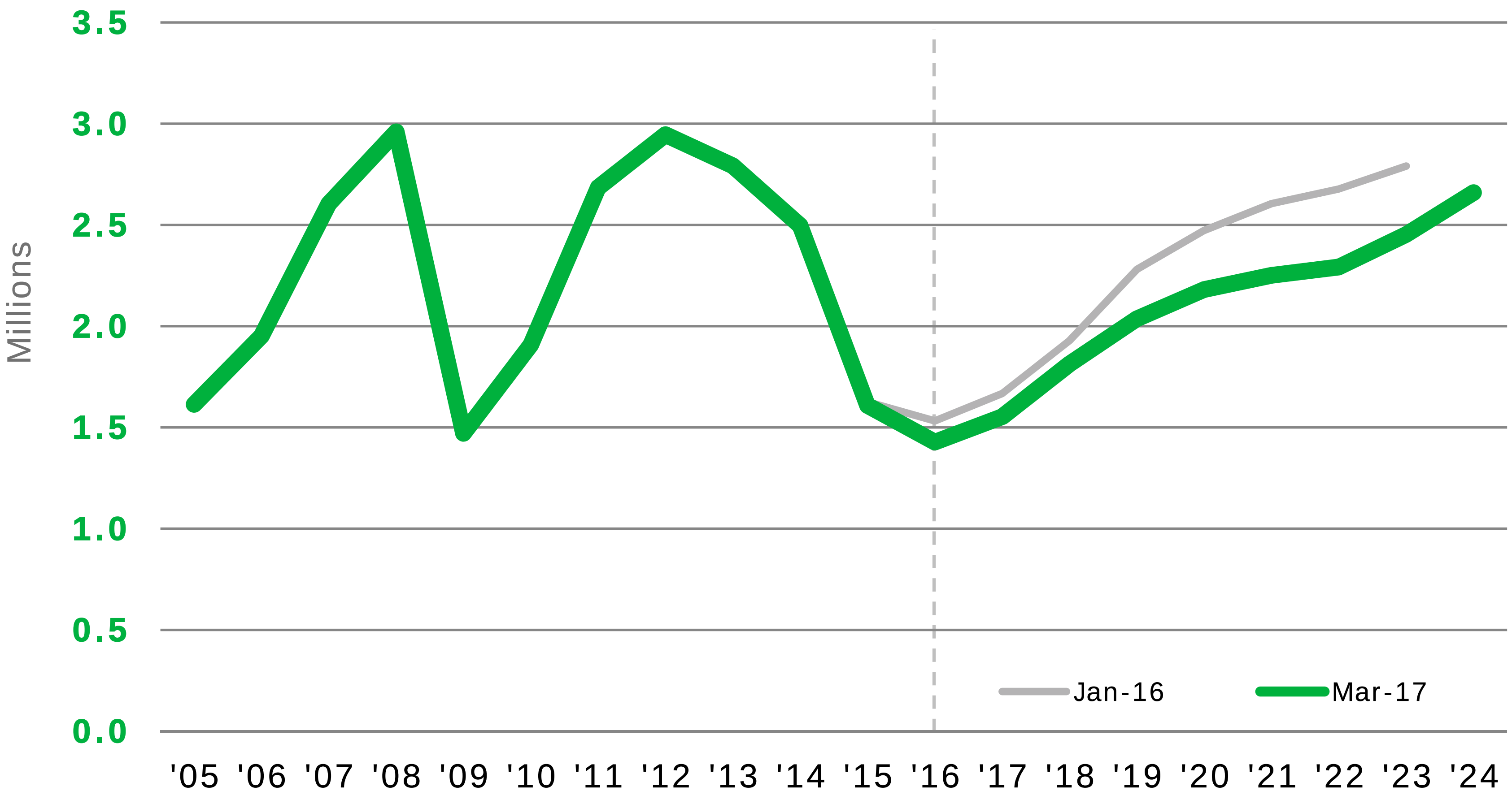
TIV: Russia light vehicle sales

3 million-unit mark only reachable under ultra-optimistic scenario



Source: IHS Markit

- **Trends**
  - > Illusion of strong growth—in reality from very low base
- **2016-2018**
  - > Oil extraction at record levels
  - > Sanctions to end mid-2017, long-term sanctions to remain
  - > Oil prices recover to USD80 (critical level for Russian budget) by 2021
- **Long-Term**
  - > Oil USD100/barrel by 2024
  - > Stagnation, economic and political reforms
  - > Unfavorable demographics

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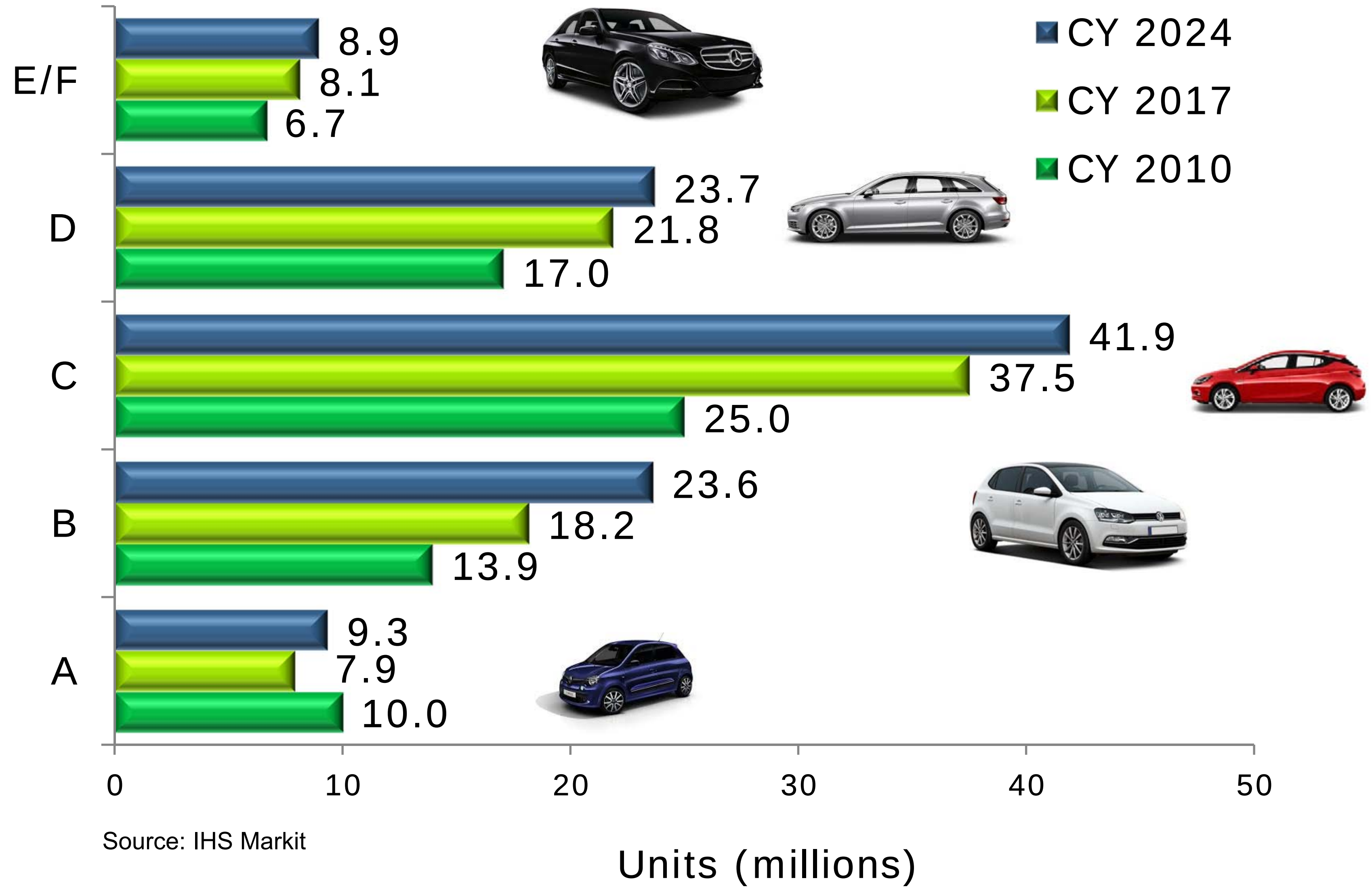
Global light vehicle sales by segment



Global segment	2017–24 growth (millions)	Share of growth
E/F	0.8	6.0%
D	1.8	13.2%
C	4.4	31.6%
B	5.4	39.1%
A	1.4	10.2%

Source: IHS Markit

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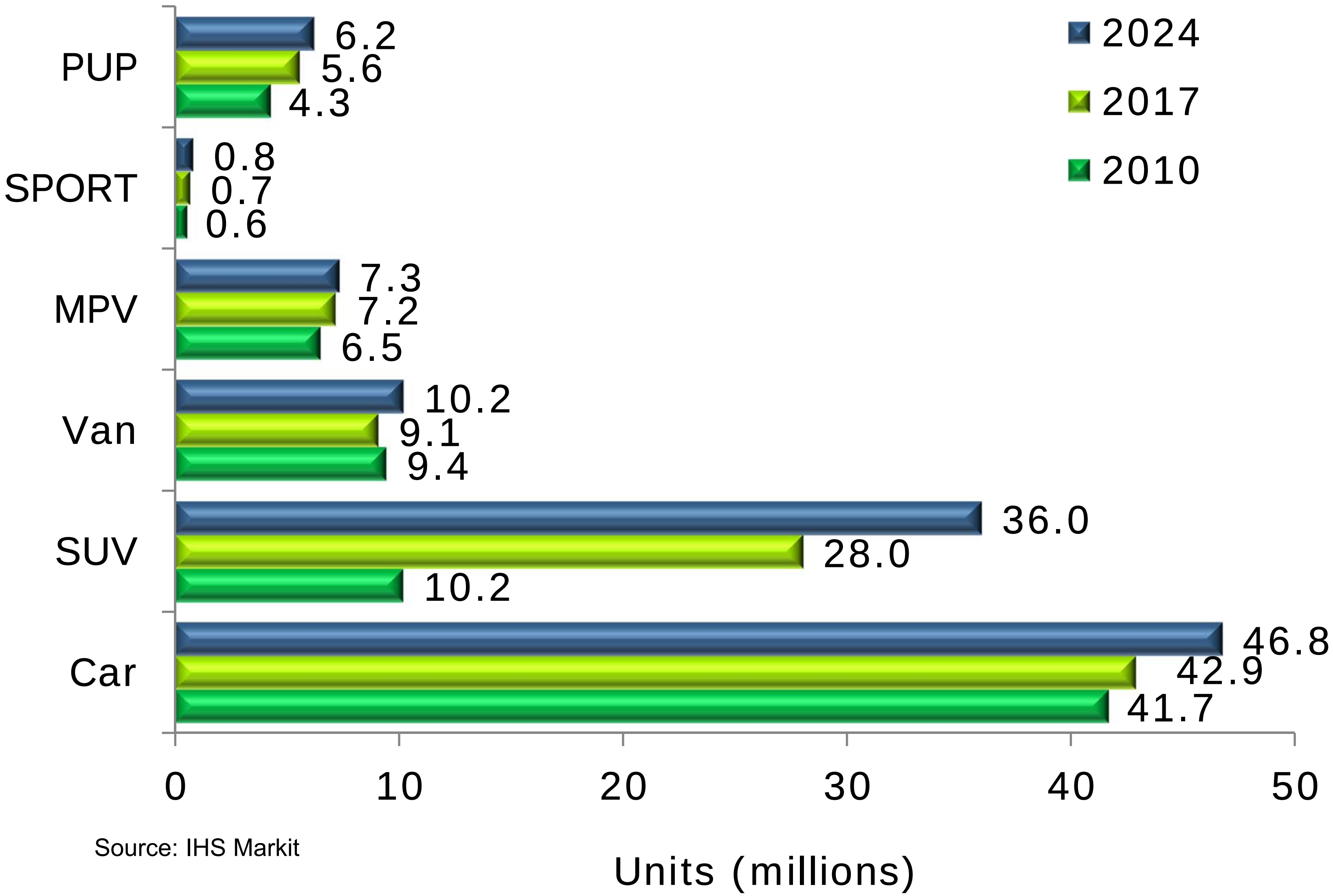
Global light vehicle sales by subsegment



Global segment	2017–24 growth (millions)	Share of growth
Van	1.1	8.1%
MPV	0.2	1.1%
SPORT	0.1	0.9%
PUP	0.6	4.6%
SUV	8.0	57.4%
Car	3.9	27.8%

Source: IHS Markit

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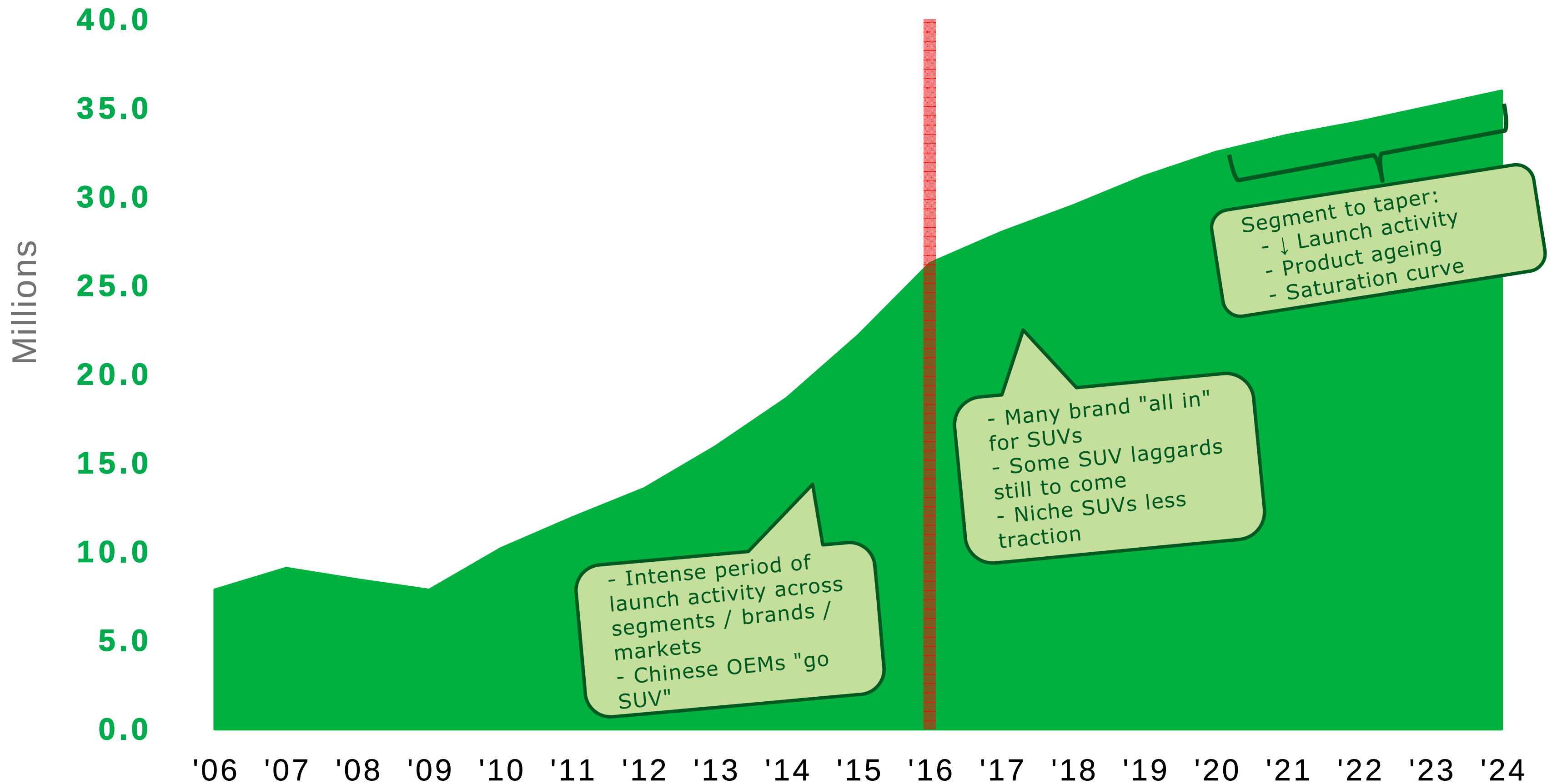
Segments: Global SUV sales

SUV boom largely continues (1 in 4 sales for 2016—soon to be 1 in 3)



- **Trend**
  - > Solid growth from product activity & demand (push/pull)
- **2017 growth continues**
  - > Model launches
  - > New generations
- **Mid-Term**
  - > Products age and launch impacts more subdued
  - > China SUV boom calms
  - > Rising oil prices/CO2/FE taxes
- **Long-Term**
  - > New generations launch in more saturated market
  - > Euro-SUVs work without diesel?
  - > Evolving mobility risk: Is SUV a private car concept?

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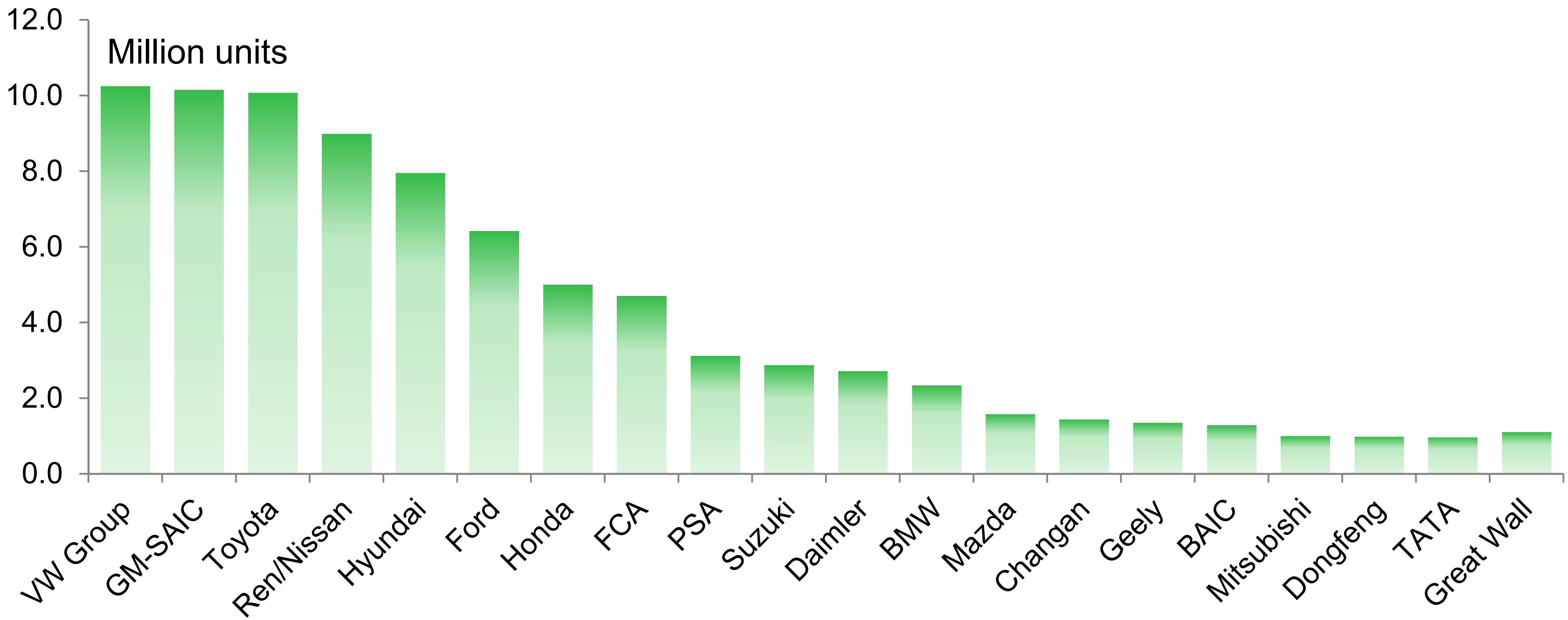
New order could emerge as growth slows and search for scale intensifies



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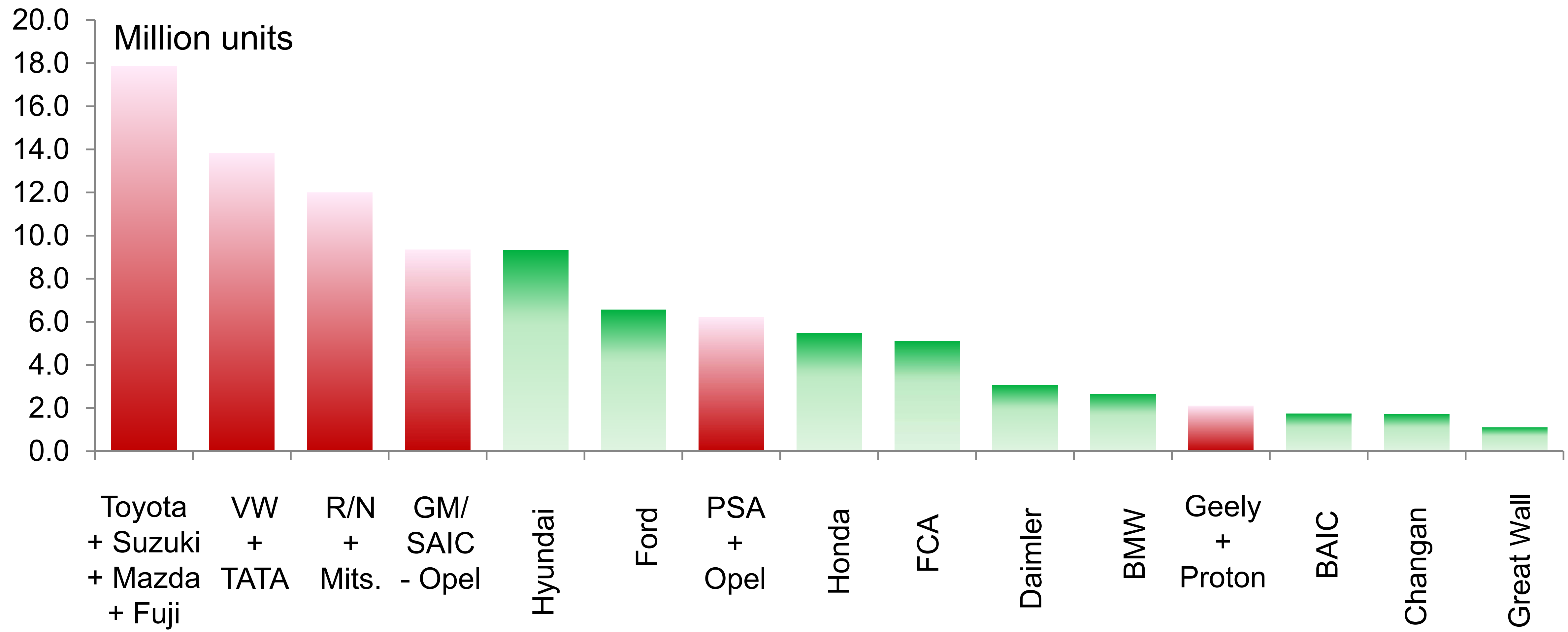
Top 20 subject to potential consolidation driven by new collaboration



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Top "Autonomics" predictions for 2017

1. Uncertainty levels have risen—but the risk of declining global autos sales remains low.
2. Autos sales for 2017 should set a new record—autos is still a growth industry.
3. Tapered Chinese autos stimulus programs should help deliver another year of growth.
4. US autos sales expected to slow for 2017—think pre-Trump-stimulus pause for breath.
5. Europe struggles to shrug off Brexit and other political uncertainties—momentum slows.
6. Russia back in growth phase—"risk of recovery" could surprise us all.
7. Iran—the biggest car market you never thought about—firmly back in growth territory.
8. Not much of a prediction—the global SUV boom continues! SUVs soon represent 1 in 3 sales.
9. New mobility concerns more mid-to-long-term issues—make the most of 2017!

It's going to be a bumpy ride!

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