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Quarterly Forecast Update:
The visible hand

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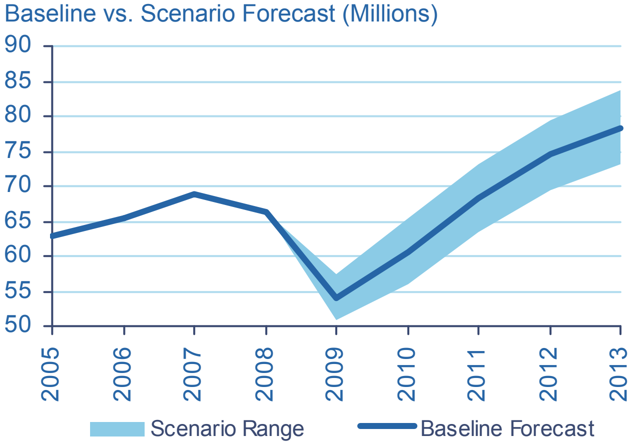
Direct government action is pervasive in the automotive industry in 2009. Tax changes and incentives have been used in markets the world over, while in the US the government has taken a direct hand in the restructuring of two key players. Adam Smith's invisible hand that promotes the wealth of all nations has been replaced by market intervention, perhaps forestalling the sector's needed deeper and wider restructuring.

Global Light Vehicle Assembly Outlook
Baseline vs. Scenario Forecast (Millions)



Source: PwC Automotive Institute 2009 Q3 Data Release

Overview

While 2009 has been characterised by a deep economic recession in many markets, market intervention has been visible in underpinning both markets and industry players.

Intervention - taking the form of scrappage incentive schemes, soft loans, fuel economy regulation, technology grants, increased import tariffs, tax reductions or surgical bankruptcy - has brought some relief to the short- to mid-term outlook in many markets.

The Darwinian evolution of the industry may have been stalled by intervention, but the industry's role as a significant – some say the most significant - economic multiplier has been the main rationale for direct action. Data for the 4th quarter of 2008 in the EU showed that the vehicle manufacturing sector was hardest hit by job losses which exceeded even those of retail.

The benefits of intervention now will undoubtedly have to be weighed against the future costs be they to the long-term health of an industry still plagued by excess capacity; to taxpayers paying down budget deficits or to future market demand levels being damaged by demand pulled forward now.

North America

With the US vehicle market now entering its 19th month of recession the light vehicle SAAR has seemingly bottomed out in Q2 2009. Nevertheless, it would still need an exceptional recovery in the 2nd half of the year for sales to exceed the 10 million barrier. Currently, we expect Q3 and Q4 SAAR rates to breach the 10 million barrier, but the improvement will only be of sufficient magnitude to see a 2009 result of 9.9 million units – a 200,000 unit reduction from our last forecast release – and a precipitous decline of 25% on 2008's result.

The 9.9 million US sales forecast is expected to translate into North American light vehicle assembly output of around 8 million units, a 36% reduction on the 2008 outcome. While light vehicle sales - expected to be some 3.5 million units lower in 2009 - are the primary driver of the assembly forecast the industry's massive scaling back of inventory levels is also significant. With inventory estimated at over 3 million units at the 2008 year end, we expect those levels to be trimmed by nearly a million units by the end of 2009.

Bill H.R. 2751, or colloquially "cash for clunkers" was signed into law by President Obama late in June. This initiative, with US$1 billion in Federal funding, will likely boost U.S. sales by only 100,000-200,000 units due to the complexity of the bill and incentive exhaustion among US consumers. Upside to the estimate could be provided if automakers choose to match or add to the government incentive.

European Union

As has been our contention for sometime, government action in 2009 in the form of scrappage schemes will prevent the EU market following the US's model of a precipitous 25% sales decline. Latest sales results for the EU15+EFTA (i.e. West Europe) show a car market SAAR of 13.5m for April and May.

With schemes being added and extended on a seemingly constant basis, and continued high participation in the German market, our 2009 EU assembly forecast is now based on a West European car sales figure of 12.8 million units. Total EU sales for passenger cars and light commercials are estimated at 15.2 million for 2009 a 9.4% decline when compared with 2008.

We calculate that, with sales at these levels, EU assembly will likely be 14.7m in 2009, a 15.6% fall from 2008 levels. The reduction in assembly volumes is greater than the sales volume decline due to inventory reductions and the collapse of key export markets.

The use of scrappage schemes include two notable downsides. Firstly, a significant shift in segmentation in EU assembly is expected for 2009 – currently we forecast that penetration of vehicles smaller than C-segment will increase to 39% from 34% in 2008. This marked shift, while keeping factories running, will do nothing to boost the profitability of the region's automakers. The second downside is the sales hangover that often occurs when the schemes are withdrawn. Given this, we expect EU light vehicle sales to fall by around 2% in 2010. Conversely, due to an expectation for stronger LCV demand – as underlying business sentiment improves – an end to destocking and some export rebound, we expect that EU assembly will improve marginally in 2010.

East Europe

Russia, Turkey, and Ukraine account for some 90% of the region's light vehicle assembly output. When compared with 2008, we believe that these three countries will post sales some 1.5 million units lower in 2009, a fall of 39%. The bulk of this market adjustment emanates from Russia, where sales are forecast to fall a dramatic 40% to 1.7 million units – which assumes a recovery from a position of sales falling 47% in the first five months of the year. As neither Russia nor Ukraine are geared for exports, the decline in sales will result in significant production declines for 2009 – our Q3 assumption for Russia is for light vehicle assembly to fall by 45% to below 1 million units for the first time since 1996, while in Ukraine output is forecast to fall by 77% and to below 100,000 units, thus undoing much of the industry's development in the 2000s. The picture in Turkey is different – its industry is more trade oriented with around 80% of its production exported – and the market in 2009 is expected to be flat due to the introduction, for three months only, of reduced purchase taxes on cars and commercial vehicles. This tax reduction helped sales increase by over 40% YoY in May 2009, although it will not negate the reduced export volumes, resulting in a forecast 25% decline in Turkish light vehicle assembly to just over 800,000 units.

For the region in total, the forecast output is 2 million vehicles, 40% less than 2008.

Asia Pacific: Japan and Korea

Developed Asia has been dramatically affected by the economic climate in the US and Europe, both due to the economic exposure determining local demand and reduced export volume requirements. Thus Q1 2009 exports from Japan declined a staggering 63%, while Korea fared slightly better with exports declining 36%.

With the welfare of the industry in both countries threatened due to the reliance on exports, governments in both have sought to stimulate domestic demand to forestall a profound weakening in the manufacturing base. Tax incentives have been introduced in Korea, while in Japan fiscal measures have been added to with scrappage and incentives to adopt green technology. Thus we expect an improved second half of the year for demand in both markets. Nevertheless, output in Japan is still expected to fall by nearly 25% to 8.1 million units, while Korea's output is forecast to fall by over 700,000 units to 2.9 million units.

Asia-Pacific: China and India

Since our last forecast update, actions taken by the Chinese government and the stabilisation of sales levels in the Indian market have helped drive a more positive short-term outlook. Longer-term, the fundamental demand potential of the two markets remains in place.

In China while Q1 sales grew by a modest 7%, the effect of government incentives boosted April and May sales by 34% and 36% respectively. However, this market exuberance is not expected to continue through the year and should give way to a market increase of around 18% when compared to 2008. In India, the Congress party's re-election is expected by business analysts to see the government take more aggressive steps to accelerate economic growth in the country. Light vehicle sales for 2009 Q1 in India grew by a meagre 0.3%, but with the market now moving away from its political uncertainty and economic performance better than anticipate a 5% increase in light vehicle sales to 1.7 million units is thought likely for 2009.

As the sales outlook for China in 2009 has improved significantly there is an accompanying increase in expectations for Chinese light vehicle assembly in 2009 as external trade still has little bearing on assembly development. Thus, we now expect assembly to increase by 13.8% to 8.5 million units – a net increase of nearly 800,000 units on last quarter's forecast.

The Indian outlook continues to be driven by two factors – local market growth and increasing exports as the country becomes a global small car export hub. With the sales outlook improved and some small car exports on the rise, we expect Indian light vehicle assembly to increase by 8.7% in 2009 to 2.1 million units, an upwards adjustment from last quarter of some 120,000 units.

Lastly, the Tata Nano and the upcoming genre of low cost cars will play the wild card in Indian domestic sales during 2009 and 2010.

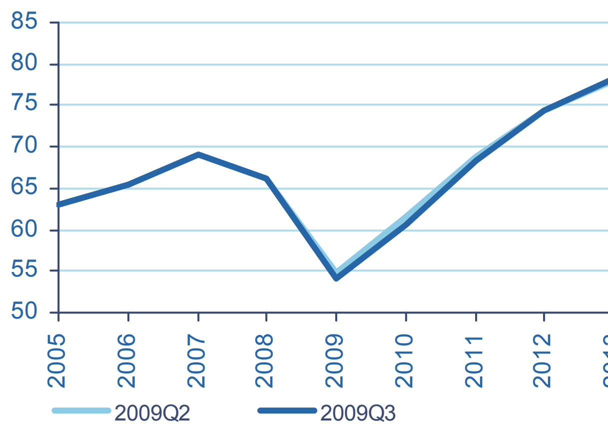
South America

Thankfully for the region, Brazil will this year no longer follow the path it appeared to be heading down in Q4 2008 when sales tumbled 25% YoY as a sliding economy and the collapse of credit availability took hold.

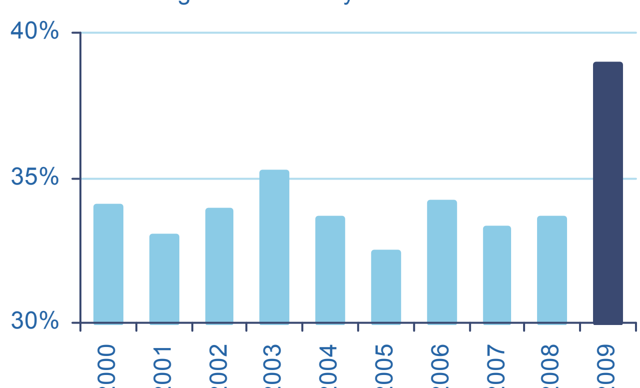
The government's reduction of Industrial Products Tax by 100% on vehicles with less than a litre displacement, has boosted sales considerably as vehicles in this range account for 48% of new vehicle sales. While the scheme was originally scheduled to expire on March 31 2009, it was extended for an additional three months and expired on June 30, sustaining first half sales levels. Government officials were adamant that the scheme would not be extended further and that additional incentives would not be forthcoming in 2009, which meant sales were likely to reduce pace in the second half. However, since the forecast release the scheme was extended until the end of September.

While the tax breaks and cheap auto financing have boosted the market (albeit forecast to fall 6% in 2009), the country's light vehicle output will likely decline 7% in 2009, due to exports declining more than sales.

Global Light Vehicle Assembly Forecast Variance
2009Q3 vs. 2009Q2



Scrappage's Distorting Effect in Europe
EU Below C-Segment Assembly Share 2000-2009



Source: PwC Automotive Institute 2009 Q3 Data Release

Detailed Baseline Forecast Data Tables

								Growth Analytics (2008-2013)				
	Region	2008	2009	2010	2011	2012	2013	Unit Diff.	% Chg	CAGR	CTG %	Rank†
1	Asia-Pacific	27,315,408	24,490,518	27,708,606	30,752,923	33,305,170	34,776,588	7,461,180	27.3%	4.9%	62.4%	1
2	European Union	17,461,258	14,752,492	15,005,511	16,305,812	17,222,972	17,929,924	468,666	2.7%	0.5%	3.9%	6
3	North America	12,606,147	8,004,723	10,057,713	12,013,547	13,454,365	14,153,488	1,547,341	12.3%	2.3%	12.9%	2
4	South America	3,740,486	3,362,186	3,850,761	4,196,425	4,576,192	4,799,032	1,058,546	28.3%	5.1%	8.9%	3
5	East Europe	3,296,613	1,986,191	2,369,737	3,200,350	3,749,456	4,244,299	947,686	28.7%	5.2%	7.9%	4
6	Middle East & Africa	1,786,390	1,544,870	1,630,512	1,854,462	2,138,525	2,256,935	470,545	26.3%	4.8%	3.9%	5
	Global Total Assembly	66,206,302	54,140,980	60,622,840	68,323,519	74,446,680	78,160,266	11,953,964	18.1%	3.4%	100.0%	
	Global Capacity	86,947,733	85,742,500	89,308,801	92,734,489	95,342,936	95,920,404	8,972,671	10.3%	2.0%		
	Global Excess Capacity	20,741,431	31,601,520	28,685,961	24,410,970	20,896,256	17,760,138	-2,981,293	-14.4%	-3.1%		
	Global Utilization	76.1%	63.1%	67.9%	73.7%	78.1%	81.5%					

	Country (Top 20)	2008	2009	2010	2011	2012	2013	Unit Diff.	% Chg	CAGR	CTG %	Rank†
1	Japan	10,822,034	8,243,133	8,967,814	9,413,116	9,466,482	9,437,219	-1,384,815	-12.8%	-2.7%	-11.6%	57
2	USA	8,508,339	5,382,474	6,861,655	8,393,563	9,275,463	9,756,658	1,248,319	14.7%	2.8%	10.4%	3
3	China	7,497,310	8,531,283	9,725,721	10,898,745	12,038,366	13,005,864	5,508,554	73.5%	11.6%	46.1%	1
4	Germany	5,449,237	4,695,234	4,534,615	4,945,527	5,301,854	5,495,145	45,908	0.8%	0.2%	0.4%	25
5	South Korea	3,664,969	2,950,598	3,336,429	3,482,392	3,495,123	3,463,390	-201,579	-5.5%	-1.1%	-1.7%	56
6	Brazil	2,858,469	2,651,429	2,918,776	3,105,058	3,384,636	3,563,964	705,495	24.7%	4.5%	5.9%	5
7	France	2,515,202	2,114,164	2,199,051	2,512,973	2,539,763	2,672,315	157,113	6.2%	1.2%	1.3%	14
8	Spain	2,509,636	2,158,788	2,126,380	2,273,693	2,282,906	2,324,767	-184,869	-7.4%	-1.5%	-1.5%	55
9	Mexico	2,052,653	1,281,869	1,632,560	1,848,249	2,342,284	2,478,689	426,036	20.8%	3.8%	3.6%	7
10	Canada	2,045,155	1,340,380	1,563,498	1,771,735	1,836,618	1,918,141	-127,014	-6.2%	-1.3%	-1.1%	53
11	India	1,983,226	2,156,156	2,436,141	2,962,270	3,458,025	3,889,747	1,906,521	96.1%	14.4%	15.9%	2
12	United Kingdom	1,619,598	1,022,689	1,193,990	1,308,192	1,343,482	1,474,828	-144,770	-8.9%	-1.9%	-1.2%	54
13	Russia	1,566,429	858,461	1,103,884	1,495,411	1,839,093	2,163,891	597,462	38.1%	6.7%	5.0%	6
14	Thailand	1,455,733	920,263	1,297,434	1,801,878	2,403,907	2,485,423	1,029,690	70.7%	11.3%	8.6%	4
15	Iran	1,125,186	1,081,095	1,156,996	1,265,507	1,311,330	1,379,587	254,401	22.6%	4.2%	2.1%	11
16	Turkey	1,096,276	822,308	882,937	1,016,135	1,087,699	1,155,526	59,250	5.4%	1.1%	0.5%	24
17	Italy	981,148	882,725	873,590	922,498	1,018,612	1,121,770	140,622	14.3%	2.7%	1.2%	16
18	Poland	918,316	848,047	882,058	904,762	916,070	871,151	-47,165	-5.1%	-1.0%	-0.4%	49
19	Czech Republic	895,242	936,044	941,042	986,333	985,922	996,228	100,986	11.3%	2.2%	0.8%	19
20	Belgium	680,149	509,546	526,552	594,827	627,591	628,069	-52,080	-7.7%	-1.6%	-0.4%	50
	Top 20 Total Assembly	60,244,307	49,386,686	55,161,123	61,902,864	66,955,226	70,282,372	10,038,065	16.7%	3.1%	84.0%	
	Top 20 (% of Global Total)	91.0%	91.2%	91.0%	90.6%	89.9%	89.9%	84.0%				

	Alliance Group (Top 13)	2008	2009	2010	2011	2012	2013	Unit Diff.	% Chg	CAGR	CTG %	Rank†
1	Toyota Group	9,708,031	7,560,279	8,533,588	9,598,990	10,105,815	10,389,158	681,127	7.0%	1.4%	5.7%	7
2	GM Group	8,598,283	6,239,198	7,354,724	8,064,754	8,936,505	9,282,069	683,786	8.0%	1.5%	5.7%	6
3	Renault-Nissan	6,837,674	5,361,163	6,318,112	7,230,848	8,016,504	8,578,833	1,741,159	25.5%	4.6%	14.6%	1
4	Ford Group	6,791,815	5,625,239	6,158,976	6,763,301	7,312,839	7,712,414	920,599	13.6%	2.6%	7.7%	5
5	VW-Porsche	6,518,361	5,825,192	6,106,780	7,062,305	7,801,926	8,225,641	1,707,280	26.2%	4.8%	14.3%	2
6	Hyundai Group	4,396,063	4,134,148	4,618,090	5,117,621	5,478,134	5,569,496	1,173,433	26.7%	4.8%	9.8%	3
7	Fiat Group	4,366,151	3,199,265	3,212,800	3,738,476	4,251,384	4,534,245	168,094	3.8%	0.8%	1.4%	17
8	Honda Group	3,949,941	3,068,916	3,671,504	4,081,182	4,662,044	4,945,411	995,470	25.2%	4.6%	8.3%	4
9	PSA Group	3,401,513	2,972,324	3,096,398	3,427,621	3,421,194	3,636,207	234,694	6.9%	1.3%	2.0%	12
10	Suzuki Group	2,422,626	2,098,093	2,257,856	2,515,541	2,574,132	2,638,059	215,433	8.9%	1.7%	1.8%	13
11	Daimler Group	1,659,383	1,222,257	1,345,330	1,476,471	1,713,875	1,735,001	75,618	4.6%	0.9%	0.6%	23
12	BMW Group	1,437,693	1,149,161	1,333,798	1,518,885	1,612,704	1,806,581	368,888	25.7%	4.7%	3.1%	11
13	Mitsubishi Group	1,182,501	747,380	1,066,903	1,249,209	1,423,315	1,387,929	205,428	17.4%	3.3%	1.7%	14
	Top 13 Total Assembly	61,270,035	49,202,615	55,074,859	61,845,204	67,310,371	70,441,044	9,171,009	15.0%	2.8%	76.7%	
	Top 13 (% of Global Total)	92.5%	90.9%	90.8%	90.5%	90.4%	90.1%	76.7%				

*Rankings based on contribution to total global growth (CTG%).

Source: PwC Automotive Institute Global Light Vehicle Assembly Outlook 2009 Q3 Data Release (Updated July 1, 2009)