

FRANCE

AUTOS REPORT

INCLUDES 5-YEAR FORECASTS TO 2014





France Autos Report Q1 2010

Including 4-year industry forecasts by BMI

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Executive Summary

France's earlier-than-expected exit from the recession in Q209 and the fact that private consumption has stayed positive throughout the downturn, makes **BMI** believe that overall domestic demand will be quick to pick up in 2010. Although we do not rule out slackened demand as a post-scrappage scheme phenomenon, we hold a fairly moderate forecast of a 6% year-on-year (y-o-y) fall in vehicle sales in 2010 compared with a considerable 20% y-o-y expected in Germany.

Estimates from the Comité des Constructeurs Français d'Automobiles (CCFA) indicate that the scrappage scheme has helped new passenger cars sales rise nearly 4.4% y-o-y, to 1.82mn units in 10M09. With the extension of funding towards the scheme to a total EUR500mn, Patrick Devedjian, the senior cabinet minister in charge of the Implementation of the Recovery Plan – a specialist post created after the global financial crisis – expects the scheme to support as many as 500,000 cars by the end of 2009.

In contrast, sales in the commercial vehicle segments declined 23.0% y-o-y and 38% y-o-y respectively for light and heavy vehicles in the 10-month period, which is likely to take the total end-2009 sales down 5% y-o-y, to 2.43mn units.

France suffered a more serious downturn in terms of production, however. Both domestic leaders – **Renault** and the country's biggest carmaker **PSA Peugeot Citroën** – reduced car output 44.9% y-o-y and 32.3% y-o-y respectively during 7M09. These declines came despite commitments sought by the government in early-2009. **BMI** believes that fears of production erosion and late recovery in export markets will make recovery in production very painful. As such, we have revised down our production forecast to a more than 39% y-o-y drop, to 1.3mm, by end-2009 which will be followed by further declines until the end of our forecast period to 2014.

Having survived the crisis, the next challenge for carmakers in Europe will be to develop environmentally friendly technologies which comply with EU's directives by 2015. In agreement with **BMI**'s concern about the need for relevant infrastructure development, the French government has allocated funds of EUR1.5bn (US\$2.2bn) to encourage two million new electric and hybrid (HEV) cars on roads nationwide by 2020. Parts supplier **Valeo** has received EUR6mn (US\$8.3mn) from the French Agency for Environment and Energy Management (ADEME), towards two research projects aimed at developing of low carbon emitting vehicles. Both programmes testify **BMI**'s view that a successful launch of electric vehicle (EV) programmes nationwide will require co-ordinated action between carmakers and suppliers as well as active government involvement. Meanwhile, Renault's aggressive move towards electric vehicles worldwide has set precedents for most of its counterparts to follow.

SWOT Analysis

France Autos SWOT

Strengths

- The world's fifth largest autos producer and the second largest in Europe after Germany. The sector accounts for around 15% of industrial turnover
- Its two main producers, Peugeot and Renault, represent the third and fourth largest European producers respectively
- Car ownership rates are relatively high, creating a large market for parts and accessories. The market is now the fourth largest in the EU after Germany, the UK, and Italy
- Home to 16 carmakers (up from 13 in 2000), both domestic and international, as well as 315 component manufacturers
- Many manufacturers cite the 'quality of the automotive infrastructure' as a reason for their presence in the country
- Manufacturers have shown significant development of eco-friendly technology
- Supportive government policy offers favourable business environment for carmakers

Weaknesses

- Car plants are struggling to compete against low-wage Eastern Europe
- High market saturation, the rising age of car stocks, and a buoyant used car sector all reduce opportunities for market penetration
- Government aid to Peugeot and Renault, and their commitments to maintain production domestically, could increase production costs for the carmakers

Opportunities

- Unemployment is forecasted to fall and lending rates are set to decline, boosting consumer confidence and raising demand for cars
- New product lines could boost demand for French cars in export markets. Historically, 70% of vehicles produced in the country have been exported
- The future for small cars looks bright as consumer preferences shift following the implementation of an eco-tax
- Increased exports to emerging markets could help to raise market shares of French brands globally
- Government support towards electric vehicles is encouraging

Threats

- High raw material prices are squeezing profits
- Profit margin for car manufacturers is narrowing as the market moves towards smaller cars

France Political SWOT

- Strengths**
- Stable and well established political system, with long democratic traditions. As a founder member of the EU along with Germany, and despite the effects of enlargement, France continues to be close to the centre of its decision-making process
- Weaknesses**
- France has yet to come up with a coherent response to globalisation. The political and intellectual culture remains defensive
 - Underlying social tensions provide a fertile ground for outbreaks of violent riots
- Opportunities**
- The need for modernisation and structural reforms has been propelled to the top of the political agenda during the presidential election, and the worsening economic outlook may further foster the belief that change and reform is needed
 - The election of a new US administration opens up the potential for a further recovery of Franco-American relations
- Threats**
- Following EU enlargement, the new EU members may be less susceptible to French influence
 - French opposition to the Iraq war generated enemies as well as friends. The political system and culture remains resistant to change

France Economic SWOT

- Strengths**
- One of the major and most advanced European economies
 - Key French companies have a strong reputation for technological sophistication and high research and development spend
- Weaknesses**
- Relatively high-cost, high regulation, and high tax economic model limits the ability of French companies to compete both within the EU and globally
 - Like a number of other European economies, France faces a major funding gap in the state pension system, which unless resolved will continue to exert upward pressure on taxation levels
- Opportunities**
- Expansion of the EU market gives France a chance to grow its exports and trading relations
- Threats**
- Delocalisation, a trend for a number of industrial activities to migrate away from France to lower cost areas inside the EU or elsewhere
 - Strikes in response to reform threaten major short-term disruptions to the economy