



Automonthly

October 2017

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TSKB Economic Research

- 🚗 **Turkey's total automotive production increased 7.2% in October, compared with the same month of previous year, up from 145,856 units to 156,303 units.** The main driver of the output growth was the 12.6% increase in the commercial vehicles production, which rose to 53,899 units, accompanied by the 4.5% increase in passenger car production that came out at 102,404 units.
- 🚗 **In October, domestic automotive market grew 10% compared to the same month of previous year,** up from 85,251 to 93,789 units.
- 🚗 **Total automotive exports also posted an impressive 8.5% growth rising to 118,870.** Both passenger cars and commercial vehicle exports posted increases 7.6% and 10.4%, respectively. After posting double-digit growth in consecutive nine months, exports shrank sharply in August due to factories' seasonal halt. Since then we have seen a single digit recovery.

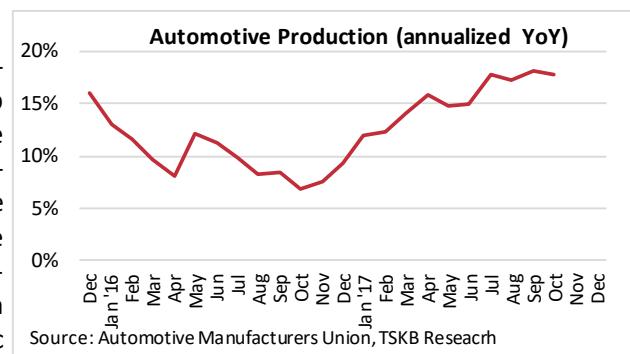
Automotive Industry Production (units)

	Oct '16	Oct '17	Δ	Jan-Oct '16	Jan-Oct '17	Δ
Passenger cars	98,007	102,404	4.5%	739,188	941,404	27.4%
Total	98,007	102,404	4.5%	739,188	941,404	27.4%
H. Truck	1,039	1,856	78.6%	12,676	14,726	16.2%
L. Truck	310	604	94.8%	1,994	3,065	53.7%
Pick-up	40,465	44,596	10.2%	380,102	365,961	-3.7%
Midibus	292	393	34.6%	2,856	2,772	-2.9%
Minibus	5,046	5,856	16.1%	35,406	45,223	27.7%
Bus	697	594	-14.8%	6,909	7,024	1.7%
Commercial Vehicles	47,849	53,899	12.6%	439,943	438,771	-0.3%
Grand Total	145,856	156,303	7.2%	1,179,131	1,380,175	17.1%

Source: Automotive Manufacturers Association

Production

Turkey's total automotive production increased 7.2% in October, compared with the same month of previous year, up from 145,856 units to 156,303 units. The main driver of the output growth was the 4.5% increase in the commercial vehicles production, which rose to 53,899 units. The growth in the production of commercial vehicles stemmed from a low-base effect, as it was still 3% below its October 2015 level. Passenger car production accompanied the commercial vehicles by a 4.5% increase up to 102,404 units, driven by both domestic



and external demand. Although production growth was strong in October, it was not strong enough to keep September's annual growth at 18.2% and declined slightly to %17.9%. We think it is too early to talk about a slow down, as the sector's cumulative production level still hovers at historical highs.

In the first ten months of the year, total automotive production grew 17.1% on the same period of previous year. Total production increased from 1,179,131 units to 1,380,175 units, marking the highest historical production among the Jan-Oct periods. Automotive Manufacturers Association calculated the capacity utilization of the industry at 86%.

In this period, passenger car production increased by an impressive 27.4%, reaching 941,404 units, up from 739,188 of the same period of last year.

Although, commercial vehicles production recorded a strong recovery in October, total production for the first ten months was down by 0.3% compared to the same month of previous year to 438,771 units. The main sources of the output shrinkage was 3.7% decline in the production of pick-up production. Although bus production declined in October, it was 1.7% above last year's level for the first ten months.

Domestic Sales

Domestic Automotive Sales (units)

	Oct '16	Oct '17	Δ	Jan-Oct '16	Jan-Oct '17	Δ
Passenger cars	63,746	70,488	10.6%	553,111	547,109	-1.1%
Commercial Vehicles	21,505	23,301	8.4%	184,979	189,375	2.4%
Total	85,251	93,789	10.0%	738,090	736,484	-0.2%

Source: Automotive Manufacturers Association

In October, domestic automotive market expanded 10% compared to the same month of previous year, up from 85,251 to 93,789 units. In this month, passenger car sales increased by 10.6% coming out as 70,488 units. Although there was a strong base impact, we saw an unexpected recovery in passenger car demand. This might be triggered by an expectation of a tax regulation change in 2018. It could not be sustainable due to a strong base-impact coming in the last quarter of the year. Meanwhile commercial vehicles market posted a 8.4% increase in October rising up to 23,301 units.

Recovery in October pulled the domestic market shrinkage down from 1.6% for nine months to 0.2% for ten months. In the first ten months, passenger car market at 547,109 units was still 1.1% below that in the same period of previous year. On the other hand, commercial vehicles sales posted a slight 2.4% growth rising to 189,375 units.

Exports

Automotive Exports (units)

	Oct '16	Oct '17	Δ	Jan-Oct '16	Jan-Oct '17	Δ
Passenger cars	74,244	79,904	7.6%	574,967	769,080	33.8%
Commercial Vehicles	35,295	38,966	10.4%	330,471	334,194	1.1%
Grand Total	109,539	118,870	8.5%	905,438	1,103,274	21.8%

Source: Automotive Manufacturers Association

In October, total automotive exports increased 8.5% up to 118,870. Both passenger cars and commercial vehicle exports posted increases of 7.6% and 10.4%, respectively. After posting double-digit growth in consecutive nine months, exports shrank sharply in August due to factories' seasonal halt. Since then we have seen a single digit recovery.

The acceleration loss in the exports might be fading contribution of new model investments and a shift to the do-

mestic market due to demand recovery. Increase in passenger car exports was the result of Toyota's 140,000-unit capacity expansion, which became operational in last November. As this base effect fades, we might see negative figures in changes. On top of this, when we analyze exports/production ratio, we see a slight deterioration from record levels.

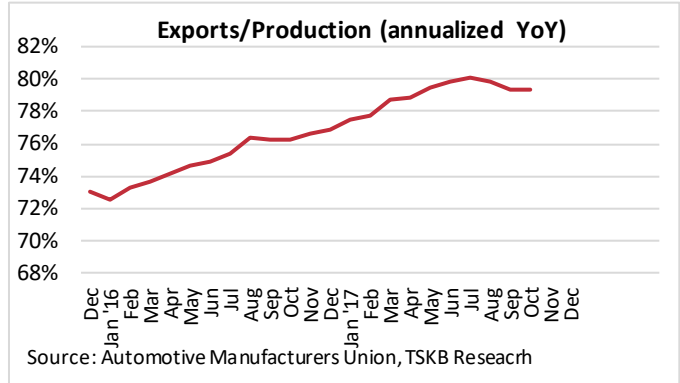
In the ten months of the year, exports of the sector displayed a 21.8% (app. 197,000 units) expansion, led by the 33.8% rise in passenger car exports. Around 133,000 units of the total rise stemmed from Toyota's new model

exports to 54 countries. Toyota launched its new C-HR model production in its Sakarya plant after completing its US\$350-mn investment last year. In the first ten months, the company increased its exports from 69,665 to 203,797, targeting to reach 235,000 as of the year-end. Despite of having a small share in total, Honda increased its exports remarkably from 1,905 to 7,667, linked to its new model investment in Sekerpinar plant with a capital expenditure of TL123mn. All of the leading exporters, Oyak Renault, Tofas, Ford Otosan recorded notable rises in their export volumes. In the ten nine months, exports of Oyak rose by 10% to 237,419, of Tofaş rose by 2% to 229,144 and of Ford Otosan expanded 14% to 240,970.

Conclusion

Sharp demand deterioration, new tax regulation that led to a taxation (Special Consumption Tax) according to the market value of the cars, rising political risk in the beginning of the year with referendum for constitutional amendment and increases in prices due to TL's depreciation resulted in a negative start to this year for the sector. The producers survived this adverse market environment by successfully directing to exports with the help of the revival of EU market and collecting the crop of the new model investments. Starting from the second half, we saw a hopeful recovery, with the help of strong economic growth. Domestic market improved from a 9% decline in the first six months to 0.2% decline for the ten-month period.

From October figures, we see a repetition of last year's fourth quarter, as the tax regulation change is again on the agenda, pulling the demand earlier. But the sharp TL depreciation might depress this demand preventing it from being a carbon copy of last year. Therefore, we expect a smaller adverse impact from a strong base of last year, than we expect last month. But for 2018, we are more pessimistic, because of not only expected increases in taxes but also possible price increased due to TL'e depreciation. The government plans to act the proposal that increase annual motor vehicles taxes by 15%-25% for the cars bought before the year-end. According to the same legislation, those who buy after new year's day will be exposed to 15-30% motor-vehicle tax increase. This regulation might slightly shift some of 2018 demand to earlier to 2017.



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