Car Market Slump in 2019

BLOMINVEST BANK

Dec. 13th 2019

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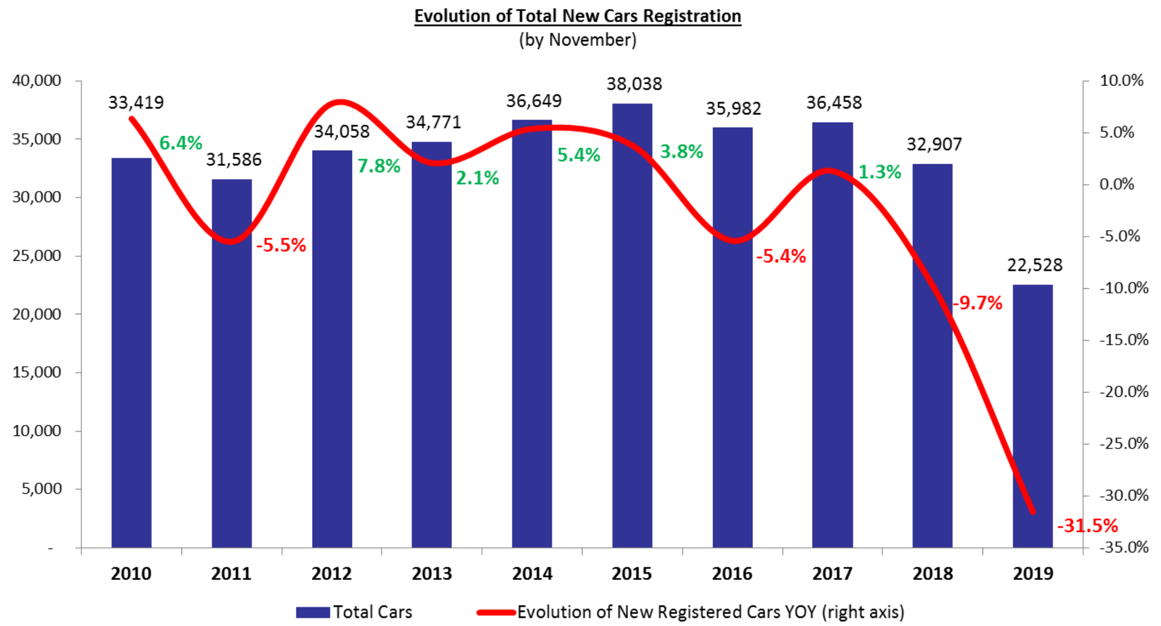
Abstract

The car market carries bigger indications than car sales and ownership. Analyzing the autos market, in a small economy like Lebanon especially in times of uncertainty reflects real sector performance linked to the trajectory of GDP growth, inflation and household spending. The dramatic drop of 79% in new cars registrations in November 2019 infers 3 economic realities: risk of company closures, employee layoffs and inhibited household consumption on durable goods (cars) amidst Lebanon's current quagmire. Moreover, purchases of new cars unveil projections of shrinking purchasing power by H1 2020, as inflation is expected to substantially increase amid the developments in H2 2019.



Source: BLOMInvest Bank; Association of Lebanese Car Importers (AIA)

Significance: The Real Sector and the Lebanese Car Market

2018 marked the first double digit slump in the Lebanese autos market. Since end-2018, the car market has struggled with a stagnating economy on the back of political and economic disappointments, growth capped at a feeble 1% and tighter car loan regulations imposed while oil prices rose. In fact, the AIA statistics in 2018 revealed a double-digit drop of 11.5% in the total number of passenger and commercial cars totaling 35,301 cars.

By H1 2019, growth hovered between 0% and 0.5% as national developments prevented the car market from improving. In fact the business conditions of the private sector deteriorated in the first 6 months of 2019, especially within an environment of high interest rates which discouraged consumers and businesses from big investments while people's savings grew. Moreover, delays persisted in the approval of the new tax-driven budget proposed, inclusive of urgent reforms. In its turn, the AIA attributed the ongoing slump in the auto sector during H1 2019 to the, "*dramatic economic and political situation prevailing [and] decisions of the banks to impose a down payment of 25% and to raise the interest rate from 3.9% to 8.5% on car loans […]*". Accordingly, the number of total new registered cars fell by an annual 24%, with newly registered "passenger" cars recording a substantial annual drop of 23.4% to 13,176 cars by June 2019.

The PMI nose-dived to 37 points in November 2019 with growth at 0% YTD, which rendered business conditions even more challenging for the imported cars distributors in the country. In H2 2019, the successive statements and downgrades by the rating agencies Fitch and Moody's weighed down on investors' confidence that's paramount to drive inflows back into the economy and kick-start the real sector, including the autos market. With the eruption of civic protests and the ensuing road and bank closures as well as de facto capital controls to-date expected to stay in place by end-2019, the 5 year (5Y) Credit Default Swaps (CDS) crossed the 957 basis points (bps) by end-July and crossed the 1,000 bps mark starting August 2019. The 5Y CDS ultimately hit historical highs of 2,637 bps by end-November 2019. The operations of private sector companies, including the imported cars distributors were paralyzed.

Demand for new cars weakened, with the total number of new registered cars hitting an 11–year low at 22,528 cars. Auto importers continued to be substantially affected by the developments since October, given the people's propensity to save rises in times of high uncertainty. Despite a 12.1% annual drop in international average oil prices to $64.03/barrel, the number of total (passenger and commercial) registered new cars dipped by 31.5% year-on-year (YOY) by November 2019 which was 3.25 times the decrease recorded by November 2018 when the car market recorded the first decline since 2007.

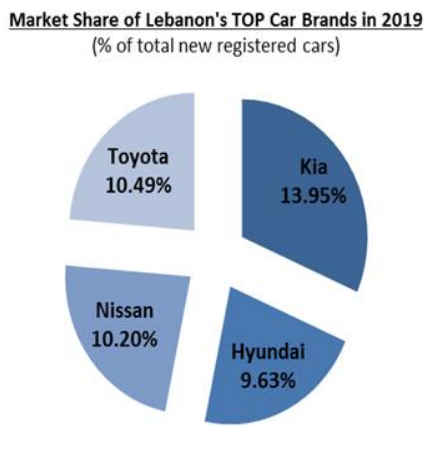
The number of new registered passenger cars and of commercial cars, each recorded the largest slumps in the series' history by November 2019. Passenger cars composed 94% of total new registered autos and dipped by an annual 30.9% to settle at 21,285 cars which constitutes an 11-year low. In turn, businesses were reluctant to invest in any new cars. The number of newly registered commercial cars (constituting a marginal 6% of total) fell by a significant 41.4% YOY which is 1.75 times the decline recorded in 2011 during the Syrian Crisis. Commercial cars by November 2019 settled at 1,243 cars. On a monthly basis, total new cars registered slipped by 78%, the largest slump in the series' history, to 520 cars of which 93% were passenger cars. These last fell by a yearly 79% to 460 cars while commercial cars declined by an annual 64.1% to 60 cars.

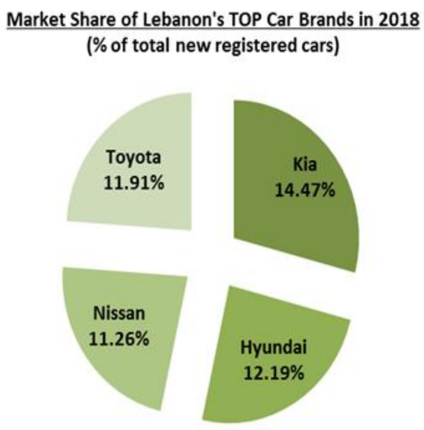
The AIA relayed November's "dramatic drop" mainly to recent procedures regarding capital controls. The AIA's latest publication attributed the dramatic sales drop to the following main reasons:

- Suspension of Car Loan,
- Impossibility of opening Documentary Credits to import cars and spare parts,
- Increase of Interest Rates,
- Impossibility of converting cash collected in Lebanese Pound into US Dollars in the Banks to pay the suppliers,

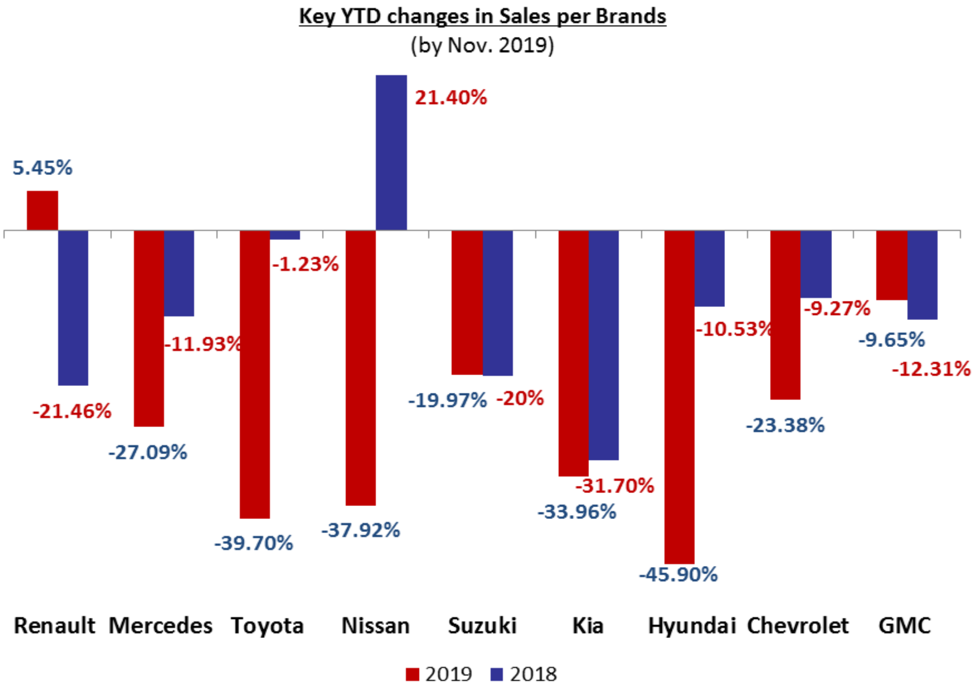
Consumers were indeed discouraged by the burden of car loans in H1 2019 according to BLOMInvest's report on lending activity in 2019. The recent publication by BLOMInvest Bank on commercial banks' lending activity revealed that Car Loans to individuals plummeted by 11.2% since year-start to stand at $909.18M by May 2019. The sharp contraction goes hand-in-hand with the slowdown witnessed in the cars sector since 2018. All in all, the AIA's subsequent publications in 2019 had attributed the monthly drops in the registration of new passenger and commercial cars to the, *"dramatic economical and political situation prevailing in the country [...] [and] banks imposing a down payment of 25% and raising the interest rate from 3.9% to 9% on car loans [...]"*, noting that higher interest rates hindered companies' growth. Given the difficulty and costs of obtaining car loans for new cars, consumers may be demanding and preferring price-friendly used cars or resorting to repair their own at affordable costs within the economic uncertainty.

With total number of new registered cars at an 11-year low, the YTD sales per brands and their respective market shares dipped. As per the AIA, Japanese cars were the most sold over the period, grasping 39.36% of total new registered cars. Korean cars came in second, with 23.65% of the total. Cars manufactured in Europe, the USA and China followed with the respective stakes of 22.62%, 8.5% and 3.71%.





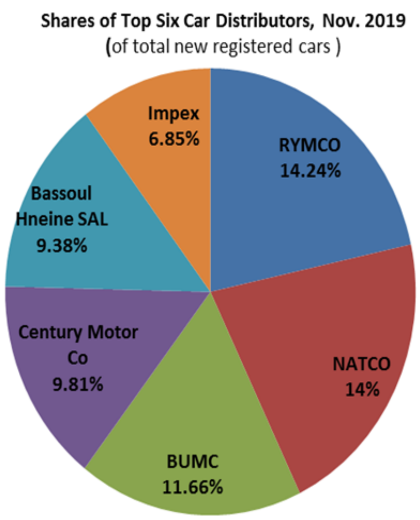
Korean and Japanese car brands recorded the most significant drops. In details, the top sold Japanese car brands stated orderly were Toyota, Nissan and Suzuki, noting that Toyota recorded the largest YTD slump at 39.7% totaling 2,363 cars compared to 2018's incremental 1.23% downtick. Meanwhile, it is worthy to mention that Nissan's sales were reversed from a 2018 uptick of 21.4% to 3,705 cars to 2019's fall of 37.92% to 2,300 cars. In turn, Suzuki's market share slipped from 4.4% of total new cars registered to 5.2% this 2019 while its sales dipped by 19.97% to 1,162 cars. The YTD sales of Kia and Hyundai, both Korean car brands, fell dramatically by 33.96% and 45.9% to 3,144 and 2,170 cars by November 2019. While Hyundai's decrease in 2019 sales was more pronounced than last year's 10.53% dip, Kia sales continued its downtrend, dipping by 31.7% in the same period last year.

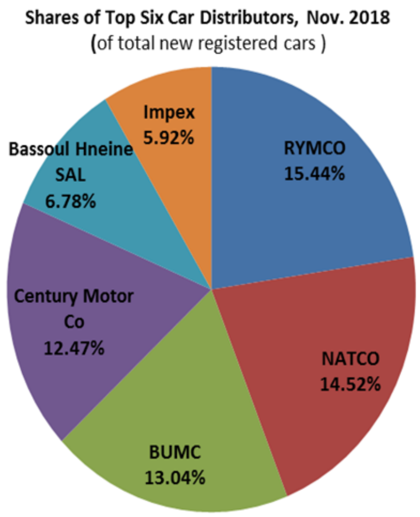


Note: The above are the top 2 brands of cars manufactured in the different countries: EU, Japan, Korea and USA, mainly imported to Lebanon.

Notably, the market share of the European car brand Renault almost doubled in 2019, while that of the American Chevrolet and GMC recorded softer upticks. The top sold European cars in Lebanon were the brands of Renault and Mercedes. The former's market share notably doubled by November 2019 compared to 2018, going from 3.96% of total new cars registered last year to 6.1% of total new cars this year. Most importantly, Renault YTD sales grew by 5.45% by November 2019 to 1,374 cars compared to last year's 21.46% decline. The Mercedes cars grasped a market share of 2.6% of total new cars registered in Lebanon and sales amounted to only 576 cars, down by an annual 27.09%. On the counterpart, the two popular American brands in Lebanon are Chevrolet, grasping a market share of 5.14% of total registered new cars (up from last year's 4.59%), and GMC (1.37% of total). In terms of sales, Chevrolet's fell by 23.38% to 1,157 cars as compared to 2018's 9.27% retreat.

The market shares of the top 6 Lebanese car importers by November 2019 shrank, compared to last year. Lebanon's top 6 distributors maintained their respective ranks in 2019 compared to 2018; however, their shares slipped.





Final thoughts

Citizen's purchasing power clearly shrank, leaving market players and consumers at a disadvantage. The prolonged political and economic deadlock is severely impacting the business environment and private sector operations, namely more than 35 companies of importers in the car market alone, noting that the private sector is made up of national employers who contribute to the creation of economic linkages with other sectors, albeit creating positions and income generation opportunities for Lebanese households[1].

As part of the real sector, the car market in Lebanon is a key indication of citizens' deteriorating living standards. According to the OECD, Household spending is the amount of final consumption expenditure made by resident households to meet their everyday needs, such as food, clothing, housing (rent), energy, transport, durable goods (notably cars), health costs, leisure, and miscellaneous services. It typically constitutes around 60% of gross domestic product (GDP) and drives key insights on consumer purchasing power as well as the living standards of citizens under the government's macroeconomic policies. From here comes the urgency to form a government who in turn, will be accountable to begin driving a series of serious structural reforms that may, on the longer term, help improve the subdued real sector performance, including the car market.

[1] The latest report by BLOMInvest on Consumer Spending Patterns 2019-2023 highlighted: Lebanon has approximately 1.6M households (4.1pax on avg. per household), with an average disposable income at $32,540/ household in 2019 and forecast at $40,885 by 2023 before the recent Q4 2019 country developments.

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