

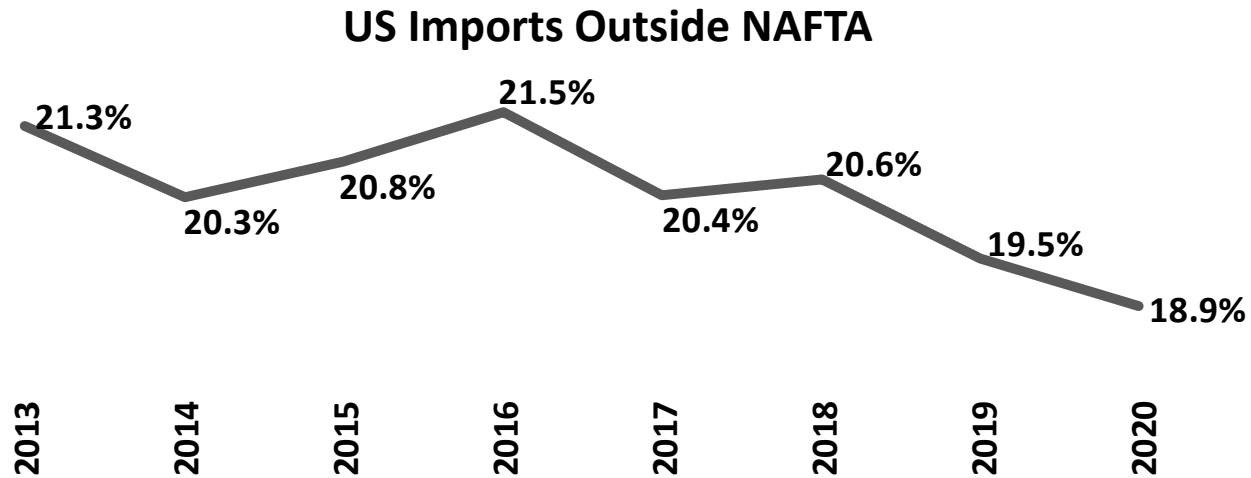
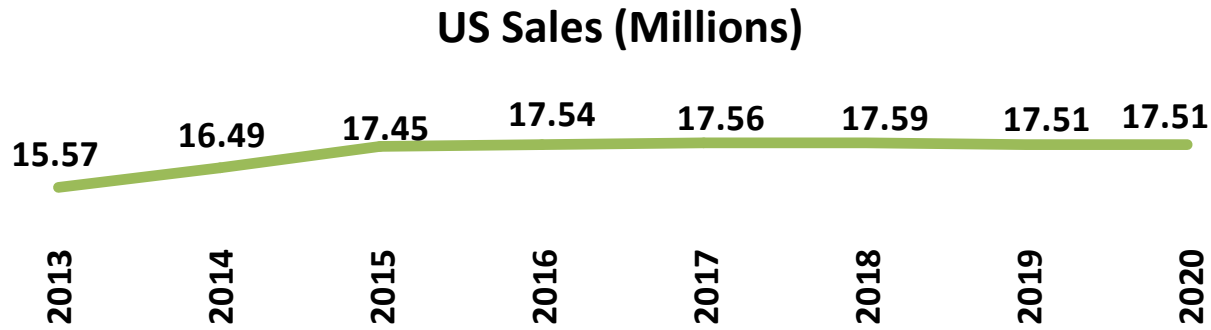


Automotive Alert

Trump Trade Policy – Potential Vehicle Assembly Exposure and Risk in North America

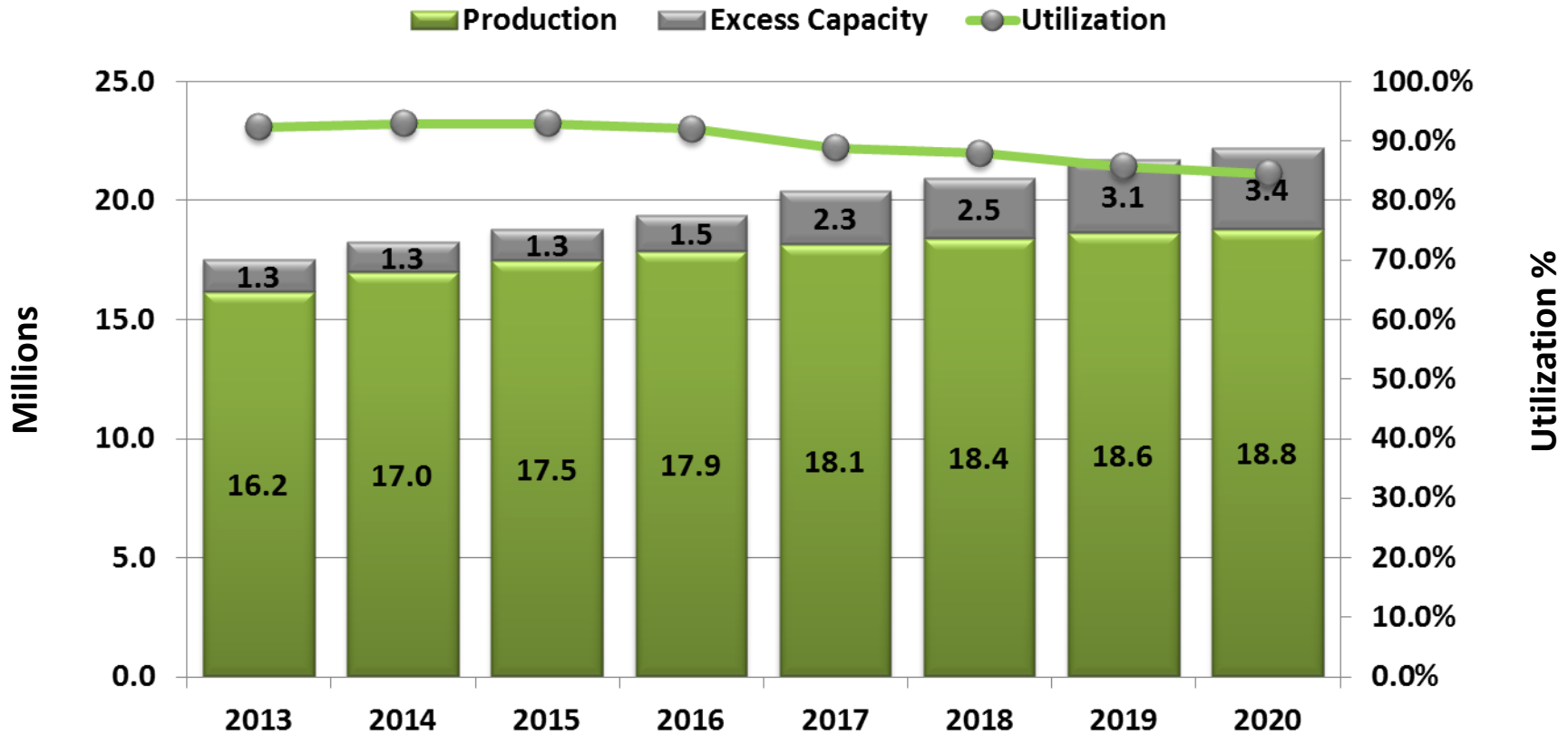
18 January 2017

- Manufacturing in Mexico, Canada, or outside the US in general, has come under threat from the incoming Trump Administration. Since the campaign, Donald Trump has said that a border tax would be in place for imported vehicles, although the tax has never been quantified. Furthermore, NAFTA could be at risk.
- The US currently accounts for two thirds of North American vehicle production but significant investment plans and decisions to re-source capacity from Asia and Europe to Mexico are expected to bring Mexican production from 19% of NAFTA today to 26% in 2020.
- The potential for penalty on vehicles manufactured within NAFTA but outside the US may impact existing vehicle sourcing and future NA production mix and vehicle decisions, many of which are already in process. Until specific policy is detailed, the environment is fluid and uncertainty remains high, as the industry plans for the future. Aversion to policy risk, and to the threat of negative publicity, has become a significant consideration for planners.
- While sourcing changes to the US have been announced by several manufacturers, further production shifts from Mexico, Canada or elsewhere, to the US are possible. We expect manufacturers to continue to publically announce investment plans in the US even if they are not directly linked to the election.
- Ultimately, any sourcing change would bring disruption to the supply chain. Component manufacturers have either heavily invested or planned large investments in Mexico based on sourcing requests and decisions from the vehicle manufacturer that have announced new capacity.
- **The key will be for OEMs and suppliers to have proactive plans that identify potential program risks, identify capacity exposure, and develop contingencies to help reduce the impact of policy changes going forward. The following alert helps identify which OEMs are at most risk for sourcing changes given these potential challenges.**



- US Light Vehicle demand flattens throughout our forecast horizon, creating a highly competitive market that will likely put pressure on profit margins.
- The number of vehicles sourced within the North American region increases as OEMs localize production capacity and more than 50% of the increase is currently expected to be in Mexico.

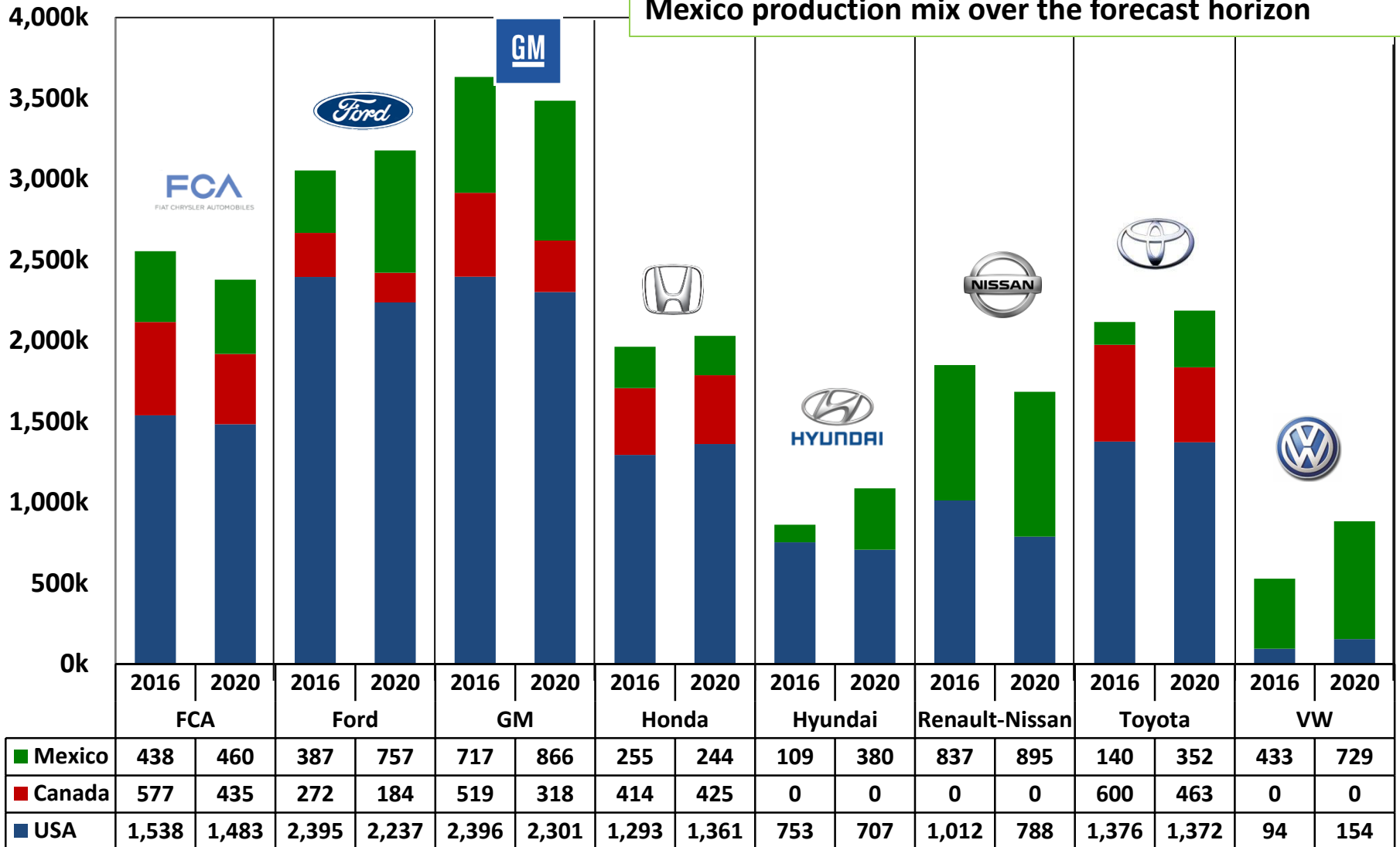
NA Production and Capacity Long-term Trend



- North America demand level adds stability layer through horizon.
- Localization and exports drive production expansion, with Mexico adding 1.3mn units. Even with substantial investment, utilization holds in the 85% to 90% range.
- Production in US adds nearly 200k units and grows by 2%, while Canada contract.

NA Production by Country – OEM Breakdown

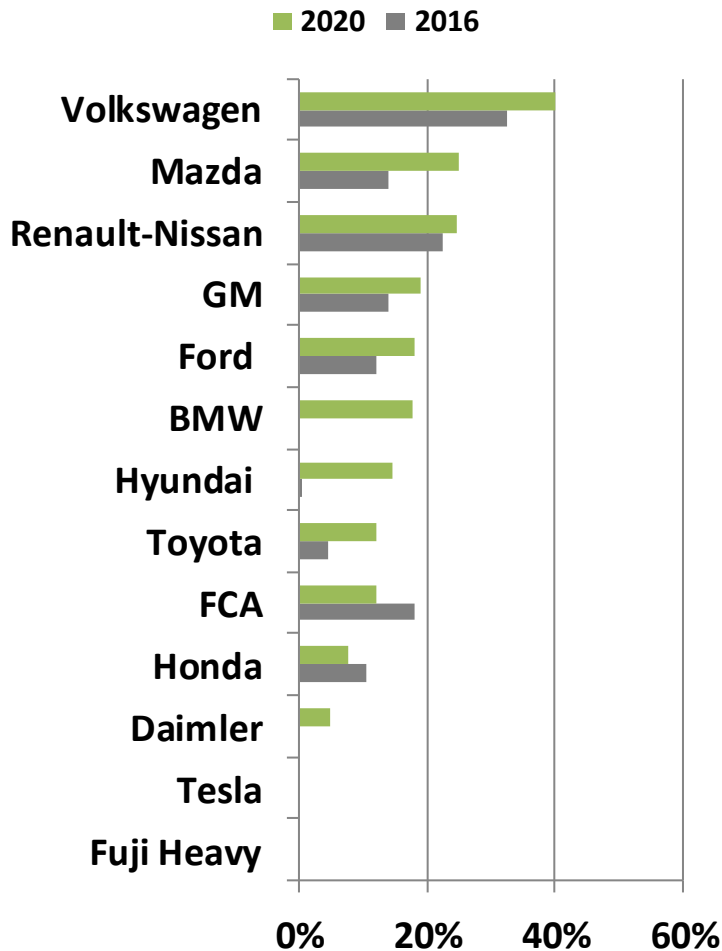
Most manufacturers are expected to increase share of Mexico production mix over the forecast horizon



Source: LMC Automotive

US Sourcing and Mexico Exposure

% Of US Sales Mexico Built



- Most OEMs are increasing their sourcing from Mexico for vehicles sold in the US after significant investment plans.
- Even with concessions and new US investment, Ford's presence grows with Focus shift to Hermosillo from Michigan Assembly.
- GM mix shifts to Mexico with Cruze/Equinox/Terrain output relocation.
- FCA declines with re-sourcing both inside and outside NAFTA, but still over 10% Mexico mix.
- Toyota's new San Luis Potosi plant is planned to open in 2019, but could be under pressure even after \$10b investment announcement.
- VW increases on new Audi San Jose Chiapa plant along with LWB Tiguan production in Puebla.
- BMW's mix from Mexico approaches 20% with new San Luis Potosi plant to produce 3 Series and derivatives.

US Sales Exposure by OEM Group

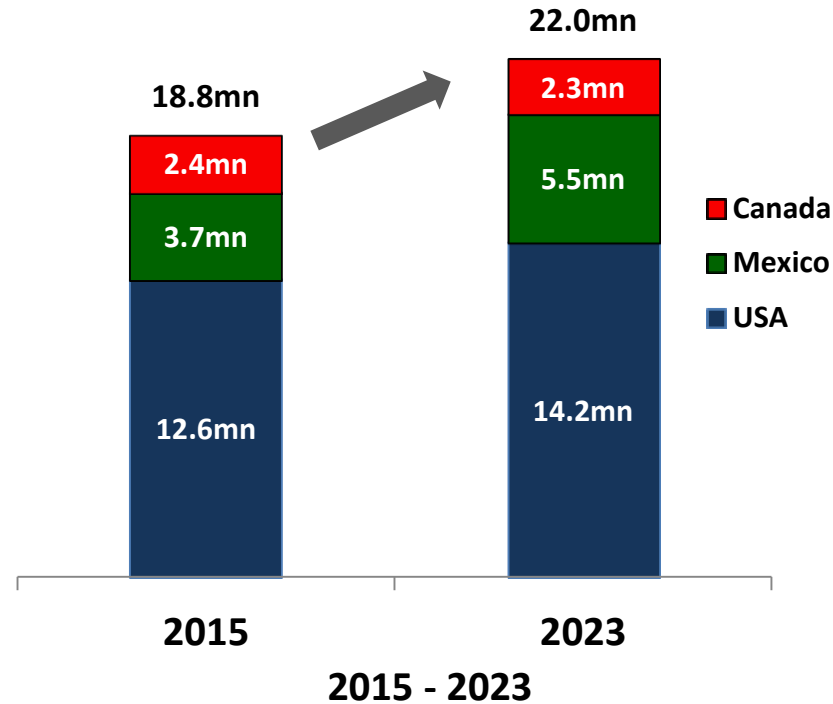
OEM	Imported Outside NAFTA		US Sourced		Mexico Sourced		Notes
	2016	2020	2016	2020	2016	2020	
Volkswagen	55%	43%	12%	17%	32%	40%	Highly exposed both inside and outside NAFTA
Mazda	86%	75%	0%	0%	14%	25%	Mazda3 at risk with sourcing mix change
Renault-Nissan	24%	25%	54%	50%	22%	25%	US mix declining, Mexico presence increases with COMPAS JV
GM	7%	6%	65%	66%	14%	19%	Imports outside NAFTA reduced, but popular model sourcing shifts to Mexico a risk
Ford	2%	4%	79%	73%	12%	18%	Concessions made but mix of US sourced vehicles declining with Mexico growing
BMW	72%	48%	28%	35%	0%	18%	US sourcing increasing with new X7, but new San Luis Potosi plant will get exposure
Hyundai	52%	42%	48%	44%	1%	14%	New Monterrey plant for Kia Forte, Hyundai Accent and Kia Rio boosts Mexico presence
Toyota	27%	21%	48%	49%	5%	12%	Corolla and Tacoma shift to Mexico already exposed
FCA	7%	9%	54%	61%	18%	12%	Could be okay given proactive announcements of plans already in place
Honda	0%	2%	68%	70%	11%	8%	Some risk but can tout CR-V move from Mexico to US
Daimler	50%	49%	50%	46%	0%	5%	COMPAS JV with Renault-Nissan adds Mexico presence, high import risk
Fuji Heavy	60%	34%	40%	66%	0%	0%	Strong presence in US with further investment expected
Tesla	0%	0%	100%	100%	0%	0%	All US sourced

OEM	Imported Outside NAFTA		US Sourced		Canada Sourced		Notes
	2016	2020	2016	2020	2016	2020	
GM	7%	6%	65%	66%	15%	9%	Mix falling with Oshawa 2 closure, but Large Pickup shift with new Unifor contract a risk
Ford	2%	4%	79%	73%	7%	5%	Limited exposure, but source popular Ford Edge and Lincoln MKX from Oakville
Toyota	27%	21%	48%	49%	20%	18%	Mix declining with Corolla shift to Mexico, but Toyota RAV4 and Lexus RX remain
FCA	7%	9%	54%	61%	21%	18%	No new capacity planned, but tariffs could impact popular Midsize Vans
Honda	0%	2%	68%	70%	21%	20%	Alliston plants produce keys to their portfolio - Honda Civic and CR-V

Source: LMC Automotive

North America Planned Capacity Investment

North American vehicle production capacity is expected to increase by 3 million units through 2023, nearly 50% of that growth is currently planned in Mexico



	Δ 1000s	Growth % Δ
Canada	-100	-4%
Mexico	1,741	47%
USA	1,573	12%
Total Capacity	3,214	17%

Other Considerations

- LMC's baseline forecast for US Light Vehicle demand over the next few years is in the 17.5 – 17.6 million unit range. Given a large number of variables and policy uncertainty there are forecast scenarios that support both upside and downside volume expectations.
 - **Upside +300-500k** – Trump's fiscal stimulus package is more substantial, with US\$1 trillion worth of personal income and corporate tax cuts and a US\$250 billion public infrastructure investment plan. In addition, a less protectionist stance is taken.
 - **Downside -400-600k** – Trump reverts to a highly protectionist and isolationist stance, fails to implement a significant fiscal stimulus package and proceeds with immigration curbs and deportations that result in substantial labor force declines. Against a backdrop of heightened uncertainty, the US and global economies are badly shaken.
- There have been several recent announcements of investment in US operations or the cancelations of investment in Mexico by OEMs. This appears to be the direct result of pressure from Trump holding to his campaign promise of penalizing companies for manufacturing outside the US. However, many of these decisions were already planned or were altered due to other factors, such as lower demand for small vehicles or shifting higher margin or complex vehicles to the US, and not solely the result of the pressure.
- Initially a spotlight has been directed towards the Detroit Three but that has expanded to include Toyota and BMW, so all brands selling vehicles in the US sourced from other countries are likely to face similar attention. While this might prove challenging, since the industry has been operating under NAFTA as a single market, we do expect the auto sector to be able to adapt to policy changes providing apply to all industry players equally. Note that increased trade barriers would likely cause an increase in costs which may ultimately be passed onto the consumer.
- Without substantial investment to assembly plants in the US, it would be difficult to absorb more than an additional 500k units of volume from Mexico or elsewhere. The creation of new capacity in the US would be likely result in the closure of existing plants in Mexico, or running them severely underutilized. Either would add cost, impacting profitability and have knock-on effects for the supply base.



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