Analyst Note

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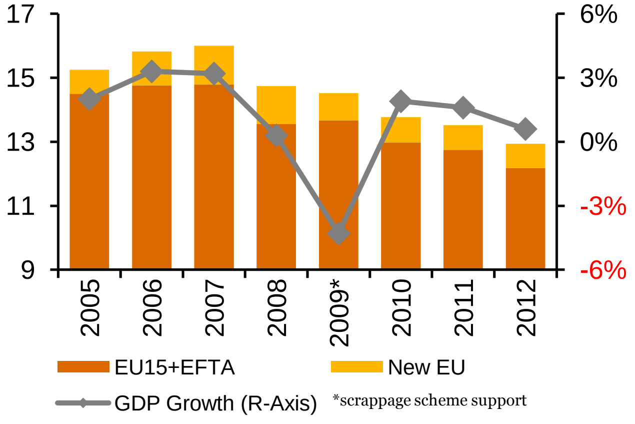
December 2011

EU: Debt Crisis Outlook

In need of a New Year's resolution

Negative news surrounding the European sovereign debt crisis has slowly escalated in recent weeks, and without a resolution or prevailing policy strategy, sentiment and economic indicators have been adversely impacted. Yet, to date, many new vehicle markets have proven quite resilient.

EU+EFTA New Car Registrations vs. GDP Growth
2005 — 2012(f) (millions)



Sovereign debt crisis – the unfolding saga

The debt crisis, which first began with Greece's revelation that its budget deficit in 2009 would be 12.5% of GDP (versus a 3.7% forecast) has introduced a high level of uncertainty to the vehicle demand outlook for all of Europe. Thus far, piecemeal measures to contain contagion and prevent its spread to Europe's core have not had the desired effect.

This unfolding saga has led to the imposition of strict austerity, not just in the Eurozone, but also other highly indebted European countries (like the UK), in an attempt to avoid becoming next in line for a bond yield spike. The inevitable consequence of such tough austerity measures will be a slowdown in economic growth, further compounded by widespread indecision over which fiscal and monetary tools to employ.

Impact on vehicle demand?

Simply put, the auto market impact to date has been less severe than expected. Granted, demand in core crisis countries is weak and falling, but sales are proving durable with strong growth in Finland, the Netherlands, and Switzerland as well as moderate growth in Germany, Norway, and Sweden. In Germany's case, growth was expected given its relative economic strength and the 20-year market low observed in 2010.

In November, registrations for EU+EFTA fell an estimated 3.3%, with the year-to-date figure down just 1.2%, which is likely to result in a full year total of 13.5 million – a 2.5 million unit fall from 2007's peak. However, over 100% of this decline is attributable to six countries and only two are top five EU markets. The worst performers have been Romania and Hungary (-74%), Greece (-66%), Ireland (-52%), and Spain (-50%).

The value of scenario planning

Under a catastrophic scenario, these markets indicate the extremes of market volatility and highlight the need for scenario planning (*see **PwC Economics** for the latest Eurozone scenarios*). In 2012, Autofacts' baseline EU outlook envisions a ~4% sales decrease, with clear downside risk if no broad debt crisis resolution is reached. Beyond Greece, Spain, and Italy, mounting concerns over French debt levels has rendered the country a central component of the downside scenario for 2012. With two support mechanisms slated for removal (i.e. scrappage carryover and reduced bonuses for low-emitting cars), along with steep increases in company car taxation, France represents a major volume risk, with a possible ~8% decrease to little more than 2 million units.

pwc

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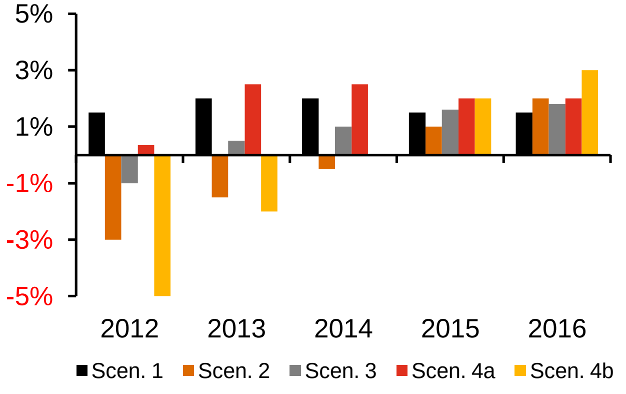
The European Union's automotive demand is highly correlated with economic performance. However, with the current Eurozone debt impasse unresolved, the outlook is more uncertain than ever, which emphasises the importance of adopting a scenario planning approach to best mitigate risk.

Eurozone: Gross Domestic Product Growth Outlook
2012 — 2016 (% change)

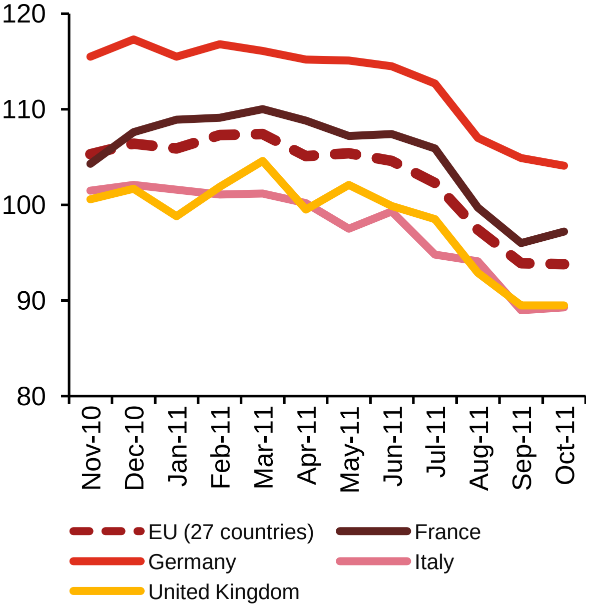


Eurozone Scenarios*

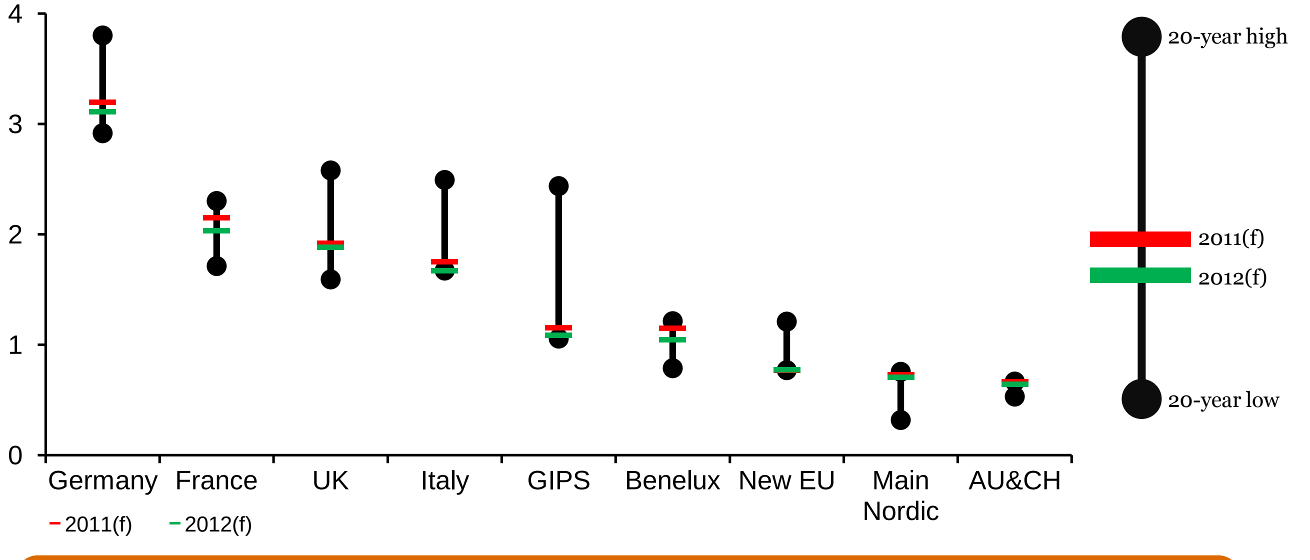
1. Monetary expansion
2. Orderly defaults
3. Greek exit
4. (a) New currency bloc – new Euro
   (b) New currency bloc – periphery

further details available at* [*PwC Economics***]

EU27 Economic Sentiment – Composite Index
Nov 2010 – Oct 2011



Europe: Registration Variance from 1991-2012
Peak and trough endpoints / 2011 & 2012 forecast (millions)



***New EU**= Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia (period covered: 2006-2011) // **GIPS** = Greece, Ireland, Portugal, Spain // **Benelux** = Belgium, Netherlands, Luxembourg // **Main Nordic** = Denmark, Finland, Norway, Sweden and associated territories // **AU&CH** = Austria, Switzerland*

Source: Eurostat, ACEA, PwC Economics, PwC Autofacts analysis

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