

BMW joins Mercedes in defying car-market decline

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Brazil's anaemic auto market is getting a boost from affluent motorists snapping up Mercedes and BMW models as tax incentives put more luxurious rides within reach.

The premium segment, which grew 32% in the first quarter, is a bright spot amid total vehicle sales that fell 5%, according to two local auto associations. High duties on imports have kept snazzier models too expensive for all except the top tier of drivers.

Luxury brands have been adjusting to local market needs by focusing on entry-level cars like Mercedes Benz's Class A 200 Turbo hatchback, which retails for about 111,000 reais (RM161,416). With Toyota Corollas priced at about 93,000 reais and Honda Accords at 120,000 reais, Brazilians with deep pockets are trading up.

"We've entered into a segment of new clients in regards to style and price," said Dimitris Psillakis, managing director of passenger cars at Mercedes-Benz in Brazil.

While tighter rules on bank lending squeeze middle-class consumers, more prosperous buyers are benefiting from tax breaks on imported vehicles given to manufacturers like Daimler AG and Bayerische Motoren Werke AG that have promised to start building cars locally.

"This market has demand for this type of vehicle; there are no credit issues with the profile of the premium customer," said Flavio Meneghetti, president of the car dealership association, known as Fenabrave, in an April 24 interview at Bloomberg's Sao Paulo office. "These brands have increased the volume of sales in the entry-level luxury segment."

Betting on Brazil

Carmakers are betting on Brazil even as economic growth in South America's largest economy is projected to slow to 1.8% this year from an average rate of 2 percent in 2011-2013. Still, automakers are encouraged by the underlying fundamentals. That's

partly why BMW is investing 200 million euros (RM904.6 million) in its first Brazilian factory, said Arturo Pineiro, chief executive officer of BMW in Brazil.

“The decision to invest money in the country is a serious and deep decision and goes beyond today’s economic instability, which I don’t think is as dramatic as everyone says,” Pineiro said in an April 15 interview in Sao Paulo.

BMW’s first Brazilian factory will begin production this year, and Audi AG, Jaguar Land Rover and Daimler’s Mercedes are following suit.

Tax hike

Three years ago, the government imposed a 30 percentage point tax increase on imported cars whose makers didn’t have local factories. That comes on top of general taxes of about 37% on all cars, and made the sticker difference more than US\$10,000 on some models, compared with cars bought in the US.

In 2012, Mercedes saw its sales plunge to 8,000 vehicles from 11,000, prompting the company to consider building a factory in Brazil, according to Psillakis.

The results are already clear. BMW saw sales in Brazil increase by 90% in the first quarter to 3,554 cars, while Mercedes sales grew by 30% to 2,442 in the same period.

While the lowest price of a Class C model is higher today than it was two years ago, at about 130,000 reais, the introduction last year of the Class A model has helped to boost sales, Psillakis said.

Rich Brazilians

Mercedes is investing 500 million reais in a new Sao Paulo factory that will have the capacity to produce 20,000 cars a year starting in 2016. Psillakis says he expects to double current sales to 20,000 within two years.

The number of rich Brazilians, defined as having a family income of greater than 5,329 reais a month by the research company Data Popular, has more than doubled to 29 million this year from 13 million in 2002, according to a March 28 presentation by Finance Minister Guido Mantega.

That population is BMW’s target market, local CEO Pineiro said. The company is investing 200 million euros in a factory in Santa Catarina state that will start

operations in October making its Series 3 model. It will have an annual capacity of 32,000 cars, with the possibility to expand.

“Brazil is the fourth-largest car market in the world, and the seventh in production, and you have the development of latent social classes,” Pineiro said. “The future could be very interesting for us, so we have to be here to explore this market.”

Jaguar, Audi

Jaguar Land Rover, which saw sales increase by 30% in 2013, is investing 750 million reais in a Rio de Janeiro factory that will have the capacity to build 24,000 vehicles a year and will begin operating in 2016, said Terry Hill, president of Jaguar Land Rover Latin America and the Caribbean, in an e-mail response to questions.

“We expect to have in Brazil 17,000 new millionaires according to recent market research, so there is a lot of potential,” Hill said.

Audi is investing 500 million reais in a local factory in a bid to sell 30,000 units a year by 2018. The company produced its A3 compact at a local plant in 1999 and closed seven years later on low demand. The company didn't reply to an e-mail request for comment.

Total car sales will drop by as much as 5% this year, Fenabreve's Meneghetti said, revising the association's January forecast of a worst-case scenario for a 3.5% decline. The poor projection is a result of a slowing in export demand, a weak economy and banks tightening credit, he said.

The Brazil Auto Sales Automobiles and Light Commercial Vehicles index is down 32% this year, heading for its biggest decline in 10 years.

Higher rates

Interest rates are also increasing, making it more expensive for average Brazilians to buy cars, said Augusto Amorim, auto analyst for South America at IHS Inc's Southfield, Michigan-based RL Polk unit, in an interview on April 21. Those rates in theory are adding to returns of richer Brazilians, who have invested their money, Amorim said.

While premium cars will capture a market share of 1.7% this year, and will almost double that in the long run, there's a ceiling, Amorim said.

“There will be a limit,” Amorim said. “It all depends on how aggressive the premium carmakers are in terms of pricing and financing.”

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