Industry Forum
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Global Opportunities in 2012 for the UK Automotive Supply Chain

The recent announcement at the Geneva Motor Show that Nissan will build a new compact model, the Invitation, at its factory in Sunderland follows a whole series of similar investment announcements by vehicle manufacturers in the UK throughout 2011.

One of the most important is the decision by Jaguar Land Rover to construct a new 800,000 sq ft engine plant in Wolverhampton on the new i54 Business Park at Pendeford . The new plant will create about 600 new jobs and up to 400 more in the supply chain. It is the biggest single investment in West Midland manufacturing since BMW launched its engine plant at Hams Hall more than a decade ago. This project is part of a wider commitment from Tata Motors who said last month that they will double their investments in their Jaguar Land Rover brands to £ 1.5 billion pounds a year. C.R. Ramakrishnan, Tata's chief financial officer, said recently, "Over the past 5 to 6 years, JLR has spent around 700 to 800 million pounds annually on capital expenditure and product development. Going forward, we will double that."

This upbeat mood contrasts with mainland Europe where weaker macroeconomic fundamentals are expected to slow demand for vehicles in 2012. Most European automotive suppliers are likely to see single-digit declines in revenues in their home markets. IHS Automotive is forecasting that total vehicle production will fall by up to 8% to 18.50 million units in Europe this year. While Eastern Europe was able to offset some of the slowdown in 2011, output in Eastern Europe is expected to contract in 2012 following the end of the Russian incentive program.

Suppliers everywhere are looking for growth opportunities in emerging markets where the outlook is much brighter than for Europe. The largest UK-owned supplier, GKN, already generates less than 40% of its revenues in Europe. GKN is well placed with its global strategy, in comparison with suppliers such as Faurecia and Valeo, which have large exposure to automakers in France. GKN attributes its 15% year-on-year increase in pre-tax profit to £417m during 2011 to the sustained growth in demand for premium vehicles globally and the strength of Chinese demand.

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Massive restructuring efforts in GKN's auto division during 2009 and 2010, together with new products and acquisitions should help increase overall performance in 2012. GKN has diversified its presence and made strong inroads into the key emerging markets of Brazil, China and India. It is also well-placed to tap growth in Japan and North America, thanks to its increased focus on supplying advanced electric and hybrid drivelines. In June 2011, GKN acquired a 25.1% stake in EVO Electric and formed a joint venture with the electric drive developer, a move that will help GKN significantly increase its participation in the electric vehicle segment. In October, it acquired the all-wheel-drive (AWD) components businesses of Germany's Getrag in a deal that made it a global leader in AWD and eDrive Systems.

The BRICS – Brazil, Russia, India, China and South Africa - continue to be the best automotive growth prospect globally. For example, Brazil has the potential to become the world's third largest automotive market by 2016, by when new vehicle sales could reach 5.65mn units a year. China overtook the United States to become the world's top auto market in 2009. Growth of the Indian passenger car market hit 31% in 2010, but dropped off sharply in 2011 due to rising interest rates, higher commodity prices and economic uncertainty. Nonetheless the Indian vehicle sales growth rate in 2012 might be 7% or more.

The U.S. auto industry is poised to enjoy its best year since 2007. J.D. Power have recently revised their 2012 U.S. auto sales and production forecasts to 14 million vehicles, up from 13.8 million vehicles - compared with sales in 2011 of 12.8 million vehicles. They see no signs that the lagging European economy will hold back U.S. sales which are responding to a rebound in leasing, more available credit and long-term financing as well as pent-up demand. January US auto sales were surprisingly robust, showing a seasonally adjusted annualized rate of 14.1 million vehicles.

Sales of new cars in Japan this year are projected to top 5 million for the first time in 4 years, thanks to planned government subsidies and tax breaks for eco-friendly vehicles. The Japan Automobile Manufacturers Association agree that sales of new vehicles are expected to total over 5 million units, an increase of 19.1 per cent from 2011.

Business Monitor International has been tracking the risk-reward ratios in the automotive sector in different European countries throughout 2011. The UK and Russia have come top of the rankings throughout 2011 which helps explain the continuing high level of vehicle manufacturer investment in the UK.

On the basis of a special study, SMMT have concluded that improving access to finance, aggregating national demand and leveraging down the supply chain are the ways to boost automotive OEMs' £7.4 billion annual spend on UK sourcing. There is a real opportunity to boost the £4.8 billion value added from the supply chain to the UK economy. These were some of the findings from SMMT's recent Supply Chain Group meeting, which brought together more than 50 OEMs and large tier one suppliers, to discuss how to maximise the supply chain business opportunities and keep it an attractive business proposition to global OEMs.

SMMT has announced that the next instalment in the series of Open Forum events will take place on 14 March at Northampton Saints Rugby Club, Northampton. On the back of the £4 billion investment committed by major OEMs to the UK in 2011, the theme of the Open Forum event is 'Growth and investment in the UK supply chain' and will focus on examining the opportunities created for UK suppliers. Free to both members and non-members, the event will include presentations from the Automotive Council Co-Chairman, Richard Parry Jones as well as Jaguar Land Rover and Aisin Europe (UK), followed by a networking lunch. For more information and to book your place, contact Claire Balch, cbalch@smmt.co.uk or telephone +44(0)20 7344 1636.

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