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PRESS RELEASE

MARKET FORECAST

Turkey: No reversal in sight for plummeting car sales

Research by LMC Automotive points to a gloomy outlook on back of deteriorating lira, skyrocketing interest rates

Oxford, 12 October 2018. The collapse in light vehicle (LV) sales in Turkey is set to continue, according to LMC Automotive. After falling by more than half in August and September, the global automotive intelligence and forecasting specialist sees dramatic declines persisting in 2019 in what is for now Europe's sixth-largest* automobile market.

Sales of passenger cars and light commercial vehicles in Turkey nosedived by 68% year on year in September following a 53% drop in August versus the same month in 2017. The fourth quarter looks no better, as LMC Automotive expects a decline of similar scale. This puts LV sales for 2018 at 591,000 units, down 38% from 954,600 in 2017. And the outlook for 2019 remains desolate, with the market set to shrink by at least another 20%.

The situation reflects the impact of the nation's economic woes. The lira has lost some 40% of its value against the U.S. dollar in the past year and almost one-quarter since 1 July. To support Turkey's currency, the central bank hiked its benchmark interest rate in September by 625 basis points to 24%. Yet inflation continues to surge, officially approaching 25% by the end of last month.

In a recent attempt to shore up vehicle sales, the Turkish government adjusted the price brackets used to calculate a special consumption tax on cars.

"But this is unlikely to compensate for the weak lira and skyrocketing interest rates," says LMC Automotive's Central and Eastern European Analyst Carol Thomas, adding that further rate hikes are possible in October.

Back to the bad old days?

Following a period of economic stability in recent years, the current state of affairs is reminiscent of Turkey in the 1980s and 1990s, an era characterised by extreme political and economic volatility. Vehicle sales and production fluctuated dramatically as the country lurched from one crisis to the next.

One consolation today is that carmakers in Turkey, Europe's fifth-biggest producer of LVs in 2017, are much less dependent on the domestic market. In 1994, when LV sales halved relative to the previous year, exports accounted for less than 10% of Turkish output. Production that year dropped by 40%. In recent years, four out of every five vehicles produced at Turkish plants were destined for export. LV production is therefore expected to fall by "only" 9% this year and 7% next year. However, the impact of dwindling local sales is critical for those producers with more exposure to the local market.

"In fact, this is already playing out in the form of significant reductions to production targets at some plants for the next few months, and there could be more downside should the domestic market deteriorate further or the U.S. impose significant

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retaliatory tariffs on Turkish vehicle imports," adds Thomas. "Having said that, any revisions to production forecasts will pale in comparison to the increasingly pessimistic sales outlook. In fact, it is likely we will revise sales estimates downwards if October proves to be as bad as rumours suggest."

* excluding Russia

Please visit www.lmc-auto.com/car-sales-in-turkey to see the related blog post

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About LMC Automotive

LMC Automotive is the leading independent and exclusively automotive focused provider of global forecasting and market intelligence in the areas of vehicle sales, production, powertrains and electrification. Highly respected for its responsive customer support, the company's client base from around the globe includes car and truck makers, component manufacturers and suppliers, financial, logistics and government institutions.

LMC Automotive is part of the LMC group. LMC is the world's leading economic and business consultancy for the agribusiness sector. For more information about LMC Automotive, visit www.lmc-auto.com or email us at forecasting@lmc-auto.com.