

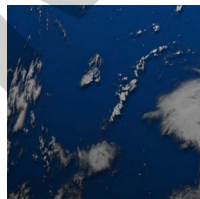
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The North American Automotive Supplier Report

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REGIONAL REPORT

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CHAPTER THREE

North American Light vehicle production review and outlook

- Sustained recovery of demand, hectic launch activity and new investments have supported expansion of production output in the region.
- The 17-million unit mark produced in 2014 is roughly the same regional production output of 2000, however North America's share of global production declined from one third of global volumes to only 19% in 2014.
- Car making remains a major industrial sector in the region, with positive long-term prospects as carmakers commit to substantial investment in the region, Mexico in particular.
- Carmakers and suppliers have been cautious in adding substantial "bricks and mortar" capacity as the strength of the recovery of volumes remained uncertain, exacerbating issues with some critical launches.
- Additional capacity allocation is pointing towards a shift of manufacturing activity towards the South as Mexico and US Southern states capitalize on foreign direct investment.
- Lower imports due to OEMs' natural hedging strategies and increased export activity also support expansion of car manufacturing in the region.
- Significant plant investment to upgrade existing facilities as carmakers introduce new fuel efficient platforms and shift their production mix towards more compact vehicles in an attempt to achieve CAFE 2025 compliance

Automotive industry's contribution to the economy

The North American region continues to provide momentum to global automotive sales growth, being one of the most vibrant and competitive markets in the automotive landscape. The automotive sector is also a major contributor to the regional economy, to the tune of 3 - 3.5% in the largest economy in the region, the US. According to the US Labour Statistics Bureau, as many as 884,000 people were employed by motor vehicle and motor vehicle parts manufacturers in the US alone as of 2014. The sector has been contributing positively to the momentum in job creation, with additional 45,500 jobs added between December 2013 and December 2014. The auto sector also remains a large contributor to the Canadian economy, as confirmed by the willingness of this country's institutions to provide taxpayer support in order to protect the automotive manufacturing base in the country. The substantial USD10 billion of foreign direct investment related to the automotive industry, which carmakers have earmarked for investment in new facilities is turning Mexico into a global automotive production hotspot, thereby making the automotive industry even more important to the regional economy.

Review

Despite having lost the second spot in the global ranking for regional production following China's outstanding growth in recent years, North America remains a major automotive production hub, with 17 million units produced in 2014 and a growth story in the global automotive industry. The 17-million unit mark is roughly the same production output which North American plants churned out in 2000, however back then North American production accounted for about one-third of global production volumes, while it now accounts for only about 19%. Unlike Europe, whose light vehicle production volumes have been stagnating over the last few years due to ongoing economic issues, North America production volumes have fully recovered from the output cuts during the recession. North America is expected to have doubled production volumes from the depth of the crisis in 2009 when only 8.5 million units were produced, creating significant issues for the survival of the local supply base, which used to be configured to survive at production levels of about 15 to 15.5 million units per annum. Regional output volumes fluctuated around these levels between 2003 and 2007.

Several factors have contributed to the recovery of regional production volumes, first and foremost being the recovery of the region's largest economy, which has spurred a

return of demand thanks to improved credit availability, ageing of the vehicle population, and an increase in product launch activity. This has resulted in the return of healthier production output levels with nearly 80% of the local vehicle demand being met by local production. The 17-million unit achievement of 2014 had not been attained in 14 years and is underpinned by the same underlying installed capacity as in the 2003-2007 period. Back then the plants in the region could churn out up to 18 million units, while the market required no more than 15 million, therefore leading to low capacity utilization rates and losses for the automakers. Low capacity utilization rates and poor inventory management arguably contributed to the bankruptcies of both Chrysler and GM back in 2009.

Capacity outlook

Carmakers operating in North America now face the opposite issues as plants have been operating at over 90% capacity utilization rate for the last three years and capacity constraints have been looming at several plants, especially when new models were being launched. OEMs acknowledge that a lack of sufficient capacity at the OEM and the supplier levels represents a major risk in the region, however, they have remained cautious in adding "bricks and mortar" capacity; in other words, deploying significant capital investment to expand existing facilities or building new ones. Instead, they have preferred measures which boost capacity in the short term and can eventually be revoked in case the market loses momentum. Such new-found caution is certainly one of the main lessons learned in the aftermath of the great financial crisis and the operating business environment in the run-up to this period. Moving to a three-shift pattern now seems to be among the preferred solutions for carmakers operating in the region at present, with about half of the plants running under such an arrangement in 2014. Toyota, which has been traditionally more reluctant towards such arrangements, added a third shift to a North American assembly plant for the first time when it moved the Tijuana, Mexico plant to a three-shift pattern in 2014. GM's Wentzville, Missouri factory, which produces the Chevrolet Colorado and GMC Canyon pickup trucks is one of the latest to add a third shift. However, capacity expansions via the additions of shifts can be sustained only for a relatively short period, and carmakers will eventually need to invest in new facilities as local demand volumes expand further.

Capacity should expand to nearly 21 million units in the run-up to 2020 as regional output volumes increase to nearly 19 million units by then. The incremental 2.6 million unit capacity on the 2014 level that is expected to be added by 2020 is mostly a product of greenfield plant